

STRONG MEDICINE FOR COMPETITION ILLS: THE JUDGMENT OF THE EUROPEAN COURT OF JUSTICE IN THE IMS HEALTH ACTION AND ITS IMPLICATIONS FOR MICROSOFT CORPORATION

DONNA M. GITTER*

I. INTRODUCTION

On April 29, 2004, the European Court of Justice (ECJ), the European Community's highest court, rendered its judgment in *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG*,¹ thereby clarifying the ECJ's approach to the inherent tension between competition law and intellectual property rights.² The ECJ expanded upon its judgment in *Magill*,³ in which

Copyright © 2005 by Donna M. Gitter

* Assistant Professor of Legal and Ethical Studies, Fordham University Schools of Business; J.D. University of Pennsylvania Law School; B.A. Cornell University. E-mail: gitter@fordham.edu.

I am very grateful to two colleagues who have so generously shared with me their insights into the IMS action: Professor Valentine Korah, Professor Emeritus of Competition Law, University College London, Visiting Professor, Fordham University School of Law, and Visiting Professor, College of Europe at Bruges; and Ms. Estelle Derclaye, Lecturer in Intellectual Property Law at the University of London's Queen Mary Intellectual Property Research Institute. I also appreciate the able research assistance of Lisa Brubaker, Dorota Czaplinska, Jeffrey Franco, Ulrike Tinnefeld, and Roland Wig, as well as the generous support of the Fordham University Schools of Business.

1. Case C-418/01, *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG* (2004) (Judgment of the Court (Fifth Chamber) of 29 April 2004), available at <http://www.curia.eu.int/en/content/juris/index.htm> (April 29, 2004) [hereinafter *ECJ Judgment of 29 April 2004*].

2. According to Professor Cotter, "whereas antitrust law seeks to achieve economic efficiency by promoting competition over monopoly, intellectual property law can be viewed as an effort to achieve this goal by *stifling* competition, at least in the short term." Thomas F. Cotter, *Intellectual Property and the Essential Facilities Doctrine*, 44 ANTITRUST BULL. 211, 227-28 (1999) (citation omitted). See also JOSEPH A. SCHUMPETER, CAPITALISM, SOCIALISM AND DEMOCRACY 84-85 (1950) (stating that the most effective type of competition in a capitalist economy is that which arises from "the new commodity, the new technology, the new source of supply, [and] the new type of organization," as distinguished from competition on the basis of price, quality, and sales force). Cotter emphasizes, however, that most intellectual property rights do not create monopolies, since substitutes exist for most patented inventions, works protected by copyright, and trademarked items. Cotter, *supra*, at 228. "Nevertheless, most commercially successful intellectual property rights probably do confer some supracompetitive profit, and a few may actually give rise to monopoly power." *Id.*

the Court had set forth the “exceptional circumstances”⁴ that must be satisfied before a dominant firm must engage in compulsory licensing of its intellectual property.⁵ The ECJ’s judgment in the IMS action is vulnerable to critique on several grounds, both because it subjects dominant firms to much broader duties to license than had previously been the law under *Magill*, and because it neglects to clarify some of the legal issues raised in the action. First, the ECJ placed too much emphasis, in determining whether intellectual property is indispensable, upon the relevancy of customers’ participation in creating intellectual property and the potential costs of switching to an alternative. Second, while previous ECJ cases finding a dominant firm’s refusal to supply to be abusive had required the existence of two different markets, meaning that the dominant firm’s refusal to license an essential facility had to impede competition in a distinct downstream market, the ECJ accepted in the IMS action a potential or hypothetical market to satisfy the two-market criterion. Third, the ECJ failed to clarify what sort of product would satisfy the condition set forth in *Magill* that a refusal to license cannot be abusive unless it impedes the emergence of a new product. Finally, the ECJ neglected to elucidate the requirement in *Magill* that a refusal to license an indispensable facility must lack any objective business justification in order to be abusive.

Ultimately, the particular outcome facing the parties to the IMS action remains to be decided by the German national court that referred the case to the ECJ,⁶ as Article 234(a) of the Treaty Establishing the European Community reserves to national courts the role of determining questions of fact, while the ECJ clarifies matters of EC law.⁷ Nonetheless, the ECJ judgment

3. Joined Cases C-241/91 & C-242/91 P, *Radio Telefis Eireann (RTE) & Indep. Television Publ’ns Ltd. (ITP) v. Commission*, 1995 E.C.R. I-743, [1995] 4 C.M.L.R. 718 (1995) [hereinafter *Magill*].

4. *Id.* at I-823 to I-825, [1995] 4 C.M.L.R. at 790–91. See *infra* notes 107–124 for a discussion of *Magill*.

5. See *Magill*, 1995 E.C.R. at I-833 to I-834, [1995] 4 C.M.L.R. at 797–98 (ordering compulsory licensing, where exceptional circumstances caused the refusal to license to be a violation of competition law).

6. See Case C-418/01: Reference for a Preliminary Ruling by the Landgericht Frankfurt am Main by Order of That Court of 12 July 2001 in the Case of *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co.*, 2002 O.J. (C 3) 16.

7. CONSOLIDATED VERSION OF THE TREATY ESTABLISHING THE EUROPEAN COMMUNITY, art. 234(a), July 24, 2002, O.J. (C 325) 33 (2002) [hereinafter EC TREATY]. Article 234(a) of the EC Treaty provides that the ECJ “shall have jurisdiction to give preliminary rulings concerning the interpretation of this treaty.” EC TREATY, *supra*, art. 234(a). See also Jens C. Dammann, *Note, The Future of Codetermination After Centros: Will German Corporate Law Move Closer to the U.S. Model?*, 8 FORDHAM J. CORP. & FIN. L. 607, 644 (2003) (“Under Article 234 of the EC Treaty, the national courts are competent both to find the facts and to apply the law. The Court only has to decide on the correct interpretation of European Community law.”).

is highly significant due to the guiding principles of EC competition law that it enunciates for the national courts to follow.

The ECJ judgment in the IMS action will prove especially important for industries in which intellectual property serves to create a particular “standard,” such as the information technology and software industries. In these industries, one specific method of presenting information typically becomes so established that it emerges as a *de facto* standard, since it proves too difficult for customers to switch to another system.⁸ In particular, the ECJ’s judgment in the IMS action undoubtedly will influence the outcome of the pending EC competition case relating to the refusal of Microsoft Corporation (Microsoft) to license certain computer information to its rivals.

Part II of this article examines the complex intellectual property and competition proceedings leading to the ECJ’s judgment in the IMS action. Part III analyzes the ECJ’s holding, while Part IV critiques certain aspects of the judgment. Finally, Part V examines the implications of the ECJ’s judgment in the IMS action for the pending Commission action against Microsoft.

II. THE INTELLECTUAL PROPERTY AND COMPETITION PROCEEDINGS LEADING UP TO THE ECJ’S JUDGMENT IN THE IMS ACTION

The IMS action before the ECJ arose from a complex factual and procedural history involving two parallel sets of proceedings, the intellectual property case heard by the national courts of Germany, and the competition action before the EC courts. At issue in all of these proceedings is a copyright held by IMS Health in Germany in a database relating to pharmaceutical sales.

A. Brick Structures Defined

IMS Health Inc., a U.S. firm based in Westport, Connecticut,⁹ describes itself as “the world’s leading provider of information solutions to the pharmaceutical and healthcare industries.”¹⁰ IMS tracks sales in the

8. See generally Mark R. Patterson, *Inventions, Industry Standards, and Intellectual Property*, 17 BERKELEY TECH. L.J. 1043 (2002) (discussing *de jure* and *de facto* industry standards in industries reliant upon intellectual property protection).

9. Philip Shishkin, *EC Dispute Pits Copyright Protections Against Antitrust*, WALL ST. J., Mar. 15, 2001, at A15.

10. Commission of the European Communities, Commission Decision of 3 July 2001 (Case COMP D3/38.044 – NDC Health/IMS Health), 2002 O.J. (L 59) 18, 18 [hereinafter Commission Decision of 3 July 2001].

pharmaceutical and health care products industries in over one hundred nations worldwide and supplies firms in these sectors with data on the sales performance of products in terms of sales by pharmacies to patients and on doctors' prescriptions.¹¹ IMS purchases the raw sales data from pharmaceutical wholesalers, processes it, and then sells it, "along with certain value-added analysis," to firms in the pharmaceutical and health care sectors.¹² These firms use the data to assess the market share of their products as compared with competitors and to evaluate the performance of their sales representatives.¹³

In many countries, IMS provides regional sales data in a "predefined segmentation known as a 'brick structure,'" which the European Commission has described as "a grid superimposed on a country map, grouping communities of doctors, pharmacies and patients" into separate segments called bricks.¹⁵ The reason for the brick structure is twofold: (1) to comply with data protection law¹⁶ and (2) to create geographical segments with equal sales potential.¹⁷ IMS's clients, the pharmaceutical manufacturers that purchase data from IMS, use the brick structure to organize and compensate their salespeople.¹⁸ These firms define a salesperson's territory as a number of bricks and calculate his remuneration based upon growth rates

11. *Id.*; Press Release, Commission of the European Communities, Commission Initiates Formal Procedure Against Certain Practices of Intercontinental Marketing Services, IP/00/1207, at <http://europa.eu.int/rapid/start/cgi/guesten.ksh> (Oct. 24, 2000) [hereinafter Commission Initiates Formal Procedure]. IMS's worldwide revenue was \$1.38 billion in 2003. IMS HEALTH INC., 2003 ANNUAL REPORT TO SHAREHOLDERS 55, available at http://www.imshealth.com/vgn/images/portal/cit_40000873/452460112003%20Annual%20Review.pdf.

12. Phillip Landolt & Johan Ysewyn, *Intellectual Property Rights and EC Competition Law*, COPYRIGHT WORLD, June/July 2001, at 20; see also Commission Decision of 3 July 2001, *supra* note 10, at 20–21 (describing provision of regional data services to pharmaceutical companies).

13. Commission Initiates Formal Procedure, *supra* note 11.

14. See Commission Decision of 3 July 2001, *supra* note 10, at 21.

15. *Id.* at 20. The brick structure at issue in the IMS action includes the following data: postal codes of the German postal office; political boundaries; the number of residents in each segment; the distribution of physicians and pharmacies; mapping information such as topographic data and street maps; and information regarding the regional organization of physicians' billing associations. *Id.*

16. In the EC, personal data must be protected pursuant to Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the Protection of Individuals with Regard to the Processing of Personal Data and on the Free Movement of Such Data, which provides that "Member States shall protect the fundamental rights and freedoms of natural persons, and in particular their right to privacy with respect to the processing of personal data." Council Directive 95/46/EC art. 1, 1995 O.J. (L 281) 31. Under German data protection law specifically, each brick must include at least three pharmacies, in order to avoid the identification of sales to individual pharmacies, and the optimal number of pharmacies per brick for this purpose is about four or five. Commission Decision of 3 July 2001, *supra* note 10, at 20.

17. Commission Decision of 3 July 2001, *supra* note 10, at 21.

18. *Id.*

per brick of a particular pharmaceutical product's market share.¹⁹ IMS gathers this data in a format that conforms to the brick structure it has developed, and then creates regional market reports that are delivered either in print, on CD-ROM, or online to pharmaceutical manufacturers.²⁰ These manufacturers either review the data internally or transfer it to other firms for analysis.²¹

B. Copyright Proceedings Involving IMS's 1860 Brick Structure

In January 2000, IMS introduced in Germany, through its German subsidiary, a new method of providing regional pharmaceutical sales data to its clients, using a brick structure composed of 1860 geographical segments (the 1860 brick structure).²² IMS developed the 1860 brick structure from earlier iterations on which IMS had been working since 1969,²³ with cooperation from the pharmaceutical industry.²⁴ The 1860 brick structure is based to a significant extent upon German postal code divisions.²⁵ IMS received copyright protection for the 1860 brick structure pursuant to a German law that ensures intellectual property protection for databases.²⁶

19. *Id.*

20. *See id.*

21. *Id.*

22. Case T-184/01 R, *IMS Health Inc. v. Commission*, 2001 E.C.R. II-3193, paras. 5, 7 (Order of the President of the Court of First Instance of 26 October 2001)[hereinafter *CFI Order of 26 October 2001*].

23. *Id.* paras. 6–7.

24. The amount of assistance furnished by the pharmaceutical industry in creating the 1860 brick structure remains a point of contention in the IMS action. IMS maintains that pharmaceutical firms dealt with fewer than ten percent of the segments and that their proposals for improvements were considered only in exceptional cases, whereas IMS's competitors contend that the pharmaceutical industry played a crucial role in developing the individual segments. Case C-418/01, *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG* (Report of the Registrar of the European Court of Justice on the Hearing of 6 March 2003), para. 3 (English translation on file with author). *See infra* notes 102–105 and accompanying text regarding the ECJ's consideration of the significance of the pharmaceutical industry's contribution to the 1860 brick structure.

25. Case C-418/01, *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG*, [2004] E.C.D.R. 9, paras. 4–5 (Opinion of Advocate General Tizzano Delivered on 2 October 2003) available at <http://europa.eu.int/rapid/start/cgi/guesten.ksh> [hereinafter *Opinion of Advocate General Tizzano*].

26. Commission Decision of 3 July 2001, *supra* note 10, at 23, 45. IMS claimed intellectual property rights in the 1860 brick structure pursuant to a provision in German copyright law that transposes Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the Legal Protection of Databases, 1996 O.J. (L 77) 20. Commission Decision of 3 July 2001, *supra* note 10, at 22–23. This Directive, which harmonizes throughout the EC copyright protection for databases, obliges Member States to provide copyright protection for the arrangement, but not the contents, of original databases. Council Directive 96/9/EC of 11 March 1996 on the Legal Protection of Databases, art. 3, 1996 O.J. (L 77) 20 [hereinafter *Database Directive*]. The Directive also requires Member States to adopt a sui generis form of database protection for the contents of databases. *Database Directive, supra*, art. 7. IMS claimed rights in both the structure and contents of its database under the Database

The copyright extends to the specific, commercially useful organization of the underlying sales data, as well as the database in the format in which it is licensed to customers.²⁷ However, IMS does not own the raw data received from pharmaceutical wholesalers, which is freely available to its competitors.²⁸

Until early 1999, IMS had been the only provider of regional pharmaceutical sales data in Germany.²⁹ In February of that year, Pharma Intranet Information AG (PI), a U.S. corporation, entered the German market with a brick structure of 2201 segments.³⁰ Potential customers rejected this structure, expressing their strong preference for the presentation of data in the 1860 brick format.³¹ This customer preference for the 1860 brick structure stems largely from the costs of switching to an alternative. For example, pharmaceutical firms need to compare current and historical data regarding market shares and sales representatives' performance, and any alteration in the brick structure would hamper their ability to achieve valid comparisons.³² In addition, many other German firms, such as market research and computer software companies, have designed their products to be compatible with the 1860 brick structure.³³ Finally, any new brick structure would necessitate a change in sales territories, thereby not only disturbing established relationships between doctors and sales representatives,³⁴ but also

Directive. Case 11 U 67/2000, *Pharma Intranet Information AG v. IMS Health GmbH & Co. OHG*, Judgment of the Frankfurt Am Main Higher Regional Court, Sept. 18, 2002, at 5 (English translation on file with author) [hereinafter *Judgment of the Frankfurt Higher Regional Court of September 2002*]. See *infra* notes 50–57 and accompanying text for a discussion of IMS's intellectual property rights under the Database Directive.

27. Maurits Dolmans & Daniel Ilan, *A Health Warning for IP Owners: The Advocate General's Opinion in IMS and Its Implications for Compulsory Licensing*, COMPETITION LAW INSIGHT, Nov. 2003, at 12, 12.

28. *Id.*

29. Press Release, Commission of the European Communities, Commission Starts Procedure Against IMS Health in Germany, Seeks Interim Measures, IP/01/365, at <http://europa.eu.int/rapid/start/cgi/guesten.ksh> (Mar. 14, 2001) [hereinafter *Commission Starts Procedure Against IMS*].

30. Commission Decision of 3 July 2001, *supra* note 10, at 21. PI, which was founded in 1999 by a former IMS employee, ultimately was acquired in the summer of 2000 by National Data Corporation Health Information Services (NDC), a U.S. corporation based in Atlanta that, along with its German subsidiary NDC Health GmbH & Co. KG (NDC Germany), is now IMS's adversary in the copyright proceedings. See *CFI Order of 26 October 2001*, *supra* note 22, paras. 10–11; Commission Decision of 3 July 2001, *supra* note 10, at 19. NDC supplies information services in the U.S. and abroad, and, like IMS, focuses on the pharmaceutical and health care sectors. Its worldwide revenue was \$430 million in fiscal year 2003. NDCHEALTH, NDCHEALTH CORPORATION 2003 ANNUAL REPORT 3, available at <http://www.ndchealth.com/pdf/2003NDCHealthAnnualReport.pdf> (July 21, 2003).

31. Commission Decision of 3 July 2001, *supra* note 10, at 21.

32. *Id.* at 29–30.

33. *Id.* at 22, 31.

34. *Id.* at 32–33.

requiring modification of the representatives' contracts, a complicated process subject, under German law, to the approval of elected workers' councils.³⁵ In light of customer preference for the 1860 brick structure, PI introduced in 1999 regional sales reports based on a 3000-segment structure, which could be recast into either 2847 or 1860 segments.³⁶ PI achieved success with this format, and was soon able to negotiate contracts with several customers.³⁷

In October 1999, AzyX Deutschland GmbH Geopharma Information Services (AzyX), a German subsidiary of a Belgian corporation, also entered the German market for regional sales data.³⁸ Although AzyX offered a flexible product that could deliver the data according to a customized structure, potential customers nonetheless requested the 1860 brick structure and AzyX complied.³⁹

In early 2000, IMS began to suspect that PI was violating its intellectual property rights in the 1860 brick structure. IMS commenced legal proceedings on May 26, 2000, when it filed a lawsuit against PI in the Frankfurt District Court (in German, the Landgericht Frankfurt am Main) alleging infringement of IMS's copyright in the 1860 brick structure as well as unfair competition.⁴⁰ On October 12, 2000, the Frankfurt District Court prohibited PI from using the 1860 brick structure and established a potential fine in an amount up to 500,000 Deutschemarks (DM) for violation of this order.⁴¹ On October 27, 2000, the Frankfurt District Court issued an interim injunction proscribing PI's use of alternative brick structures containing 2847 or 3000 segments, or any other brick structure based on the 1860 brick structure, and established a potential fine of up to

35. *Id.* at 33. Pursuant to German employment law, elected workers' councils must participate in the decision-making process when employees' working conditions change. *Id.*

36. *Id.* at 21.

37. *Id.*

38. *CFI Order of 26 October 2001*, *supra* note 22, para. 8; Commission Starts Procedure Against IMS, *supra* note 29. Like PI, AzyX was founded by former senior personnel from IMS. Case T-184/01 R, IMS Health Inc. v. Commission, 2001 E.C.R. II-2349, II-2353, [2002] C.M.L.R. 1, para. 3 (2002) (Order of the President of the Court of First Instance of 10 August 2001) [hereinafter *CFI Order of 10 August 2001*].

39. Commission Decision of 3 July 2001, *supra* note 10, at 21.

40. *CFI Order of 26 October 2001*, *supra* note 22, para. 8; Commission Decision of 3 July 2001, *supra* note 10, at 22.

41. Commission Decision of 3 July 2001, *supra* note 10, at 22. This sum was equivalent at that time to approximately US\$211,505.00. See <http://www.xe.com> The Interactive Currency Table™, at <http://www.xe.net/ict/> (last visited Nov. 13, 2004). Germany had already agreed to adopt the euro on January 1, 1999 and euro currency began circulating in Germany on January 1, 2002, supplanting the DM as of February 28, 2002. See [xe.com](http://www.xe.com) About the New "Euro" Currency, at <http://www.xe.com/euro.htm> (last visited Nov. 13, 2004).

500,000 DM for violation of this order.⁴² The Frankfurt District Court confirmed this interim injunction on November 16, 2000.⁴³ PI appealed the judgments of October 27 and November 16 to the Frankfurt Higher Regional Court (in German, the Oberlandesgericht Frankfurt am Main), but the higher court dismissed PI's appeals on June 19, 2001.⁴⁴

On December 22, 2000, IMS filed in the Frankfurt District Court two new, separate actions for copyright infringement against NDC, which had recently acquired PI,⁴⁵ and AzyX.⁴⁶ On December 28, 2000, that court granted IMS interim injunctions enjoining NDC and AzyX from using the 1860 or 2847 brick structures or any brick structures derived from the 1860 brick structure.⁴⁷ On February 15, 2001, the Frankfurt District Court confirmed the December 28 interim injunction against AzyX.⁴⁸ That court also rejected on July 12, 2001 NDC's appeal against the interim injunction.⁴⁹

The intellectual property proceedings became considerably more complicated in September 2002 as a result of a judgment of the Frankfurt Higher Regional Court.⁵⁰ Although that court recognized that the arrangement (but not the contents) of the 1860 brick structure database merits copyright protection under German law,⁵¹ it held that IMS lacked standing to bring an action for infringement of this copyright because it does not possess clear title to the 1860 brick structure.⁵² The Frankfurt Higher Regional Court also declared that German law affords sui generis protection

42. Commission Decision of 3 July 2001, *supra* note 10, at 22.

43. *Id.*

44. *Id.*; *CFI Order of 10 August 2001*, *supra* note 38, para. 8.

45. *See supra* note 30.

46. *CFI Order of 26 October 2001*, *supra* note 22, para. 8; Commission Decision of 3 July 2001, *supra* note 10, at 22.

47. Commission Decision of 3 July 2001, *supra* note 10, at 22.

48. *CFI Order of 26 October 2001*, *supra* note 22, para. 15; Commission Decision of 3 July 2001, *supra* note 10, at 22. On September 18, 2001, the Frankfurt Higher Regional Court vacated, based in part on procedural grounds, the December 28, 2000 interim injunction issued by the Frankfurt District Court against AzyX, with the result that AzyX was "no longer prohibited by court order in Germany from using the 1860 brick structure or its derivatives." *CFI Order of 26 October 2001*, *supra* note 22, paras. 17, 44. Although it held that an interim injunction was not necessary owing to lack of sufficient urgency, the Frankfurt Higher Regional Court nonetheless did acknowledge IMS's copyright in the 1860 brick structure. *Id.* paras. 44–45.

49. *CFI Order of 26 October 2001*, *supra* note 22, para. 13.

50. *See generally Judgment of the Frankfurt Higher Regional Court of September 2002*, *supra* note 26.

51. *Id.* at 11–13; *see also supra* note 26 and accompanying text.

52. *Judgment of the Frankfurt Higher Regional Court of September 2002*, *supra* note 26, at 11–12, 16–17. The court held that IMS was in fact a co-author, rather than the sole author, of the brick structure, and recognized the co-authorship of certain pharmaceutical industry sales agents who participated in the creation of the intellectual property at issue. *Id.* at 13–15.

for the contents, not the arrangement, of databases, and therefore does not apply to an arrangement such as the 1860 brick structure.⁵³ While leaving open the question of how different from IMS's brick structure competitors must make their own brick structures in order to avoid liability for copyright infringement,⁵⁴ the court held that PI had indeed infringed in the instant action because it had appropriated IMS's information via software piracy.⁵⁵ Finally, the Frankfurt Higher Regional Court stated that IMS was not wrongful in its failure to license to its competitors because IMS cannot grant a license without the consent of its co-authors.⁵⁶ By the time of this judgment, however, the EC courts had already begun to consider whether IMS's refusal to license violated EC competition law.

C. The Competition Proceedings Involving IMS's 1860 Brick Structure

After IMS initiated its copyright actions in the German courts, both NDC and AzyX requested from IMS licenses to use the 1860 brick structure, but met with refusal.⁵⁷ Consequently, on December 19, 2000, contemporaneous with the copyright proceedings, NDC lodged a complaint with the Commission alleging that IMS had infringed Article 82 of the EC Treaty.⁵⁸ Article 82 provides that: "Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States."⁵⁹ Article 82 further de-

53. *Id.* at 17–18.

54. The Frankfurt Higher Regional Court stated that "third parties could not simply be prohibited from developing freely and independently a brick structure that is similarly based on a breakdown by district, urban district and post-code district" and therefore comprised of "more or less the same number of bricks." Commission Decision of 13 August 2003 (Case COMP D3/38.044 – NDC Health/IMS Health), 2003 O.J. (L 268) 69, 71 (citing the Frankfurt Higher Regional Court) [hereinafter Commission Decision of 13 August 2003].

55. *Judgment of the Frankfurt Higher Regional Court of September 2002*, *supra* note 26, at 20–21.

56. *Id.* at 21. For discussion of IMS's refusal to license its intellectual property, see *infra* note 57 and accompanying text.

57. *CFI Order of 26 October 2001*, *supra* note 22, paras. 10, 16; Commission Decision of 3 July 2001, *supra* note 10, at 22. NDC offered an annual licensing fee of 10,000 DM, while AzyX proposed ten times that amount. *CFI Order of 26 October 2001*, *supra* note 22, paras. 10, 16. Around that time, seventeen pharmaceutical companies made a written request asking IMS to license the 1860 brick structure freely, to permit market competition. Commission Decision of 3 July 2001, *supra* note 10, at 38.

58. Commission Decision of 3 July 2001, *supra* note 10, at 19.

59. EC Treaty, *supra* note 7, art. 82 (previously article 86). In the view of the Commission and the EC courts, the presence of a dominant company on a market distorts the structure of competition and therefore dominant firms face particular scrutiny of their trade practices. Pat Treacy & Thomas Heide, *Abusive Behavior: The EC Microsoft Decision*, 154 NEW L.J., Apr. 23, 2004, at 608, 609. See also Donna M. Gitter, *The Conflict in the European Community Between Competition Law and Intellec-*

finer such abuse as including, *inter alia*, “limiting production, markets or technical development to the prejudice of consumers.”⁶⁰ Article 82 represents an exception to the general rule in the EC that it is the privilege of a firm to decide with whom to trade.⁶¹ EC competition authorities consider the following three factors in determining whether there has been a violation of Article 82: “(a) a dominant position [within the common market or in a substantial part of it],⁶² (b) abuse of that dominant position and (c) a resultant effect on trade between Member States.”⁶³ In some circumstances, a dominant firm’s “refusal to trade” with another would be an example of such an abuse.⁶⁴

NDC asserted that IMS’s refusal to grant its competitors a license to use the 1860 brick structure constituted an abuse of its dominant market

tual Property Rights: A Call for Legislative Clarification of the Essential Facilities Doctrine, 40 AM. BUS. L.J. 217, 297–98 (2003) (explaining that the EC’s strong regulation of dominant firms arises in part from the need to achieve a single market in a region where there are many dominant firms and also from an inclination to protect small and medium-sized firms).

60. EC Treaty, *supra* note 7, art. 82(b).

61. See Case C-7/97, Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, I-7810, [1999] 4 C.M.L.R. 112, 131 (1999) (Opinion of Advocate General Jacobs of 28 May 1998) (“The laws of the Member States generally regard freedom of contract as an essential element of free trade.”).

62. EC law defines dominance as “a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers.” Case 27/76, United Brands Co. & United Brands Continental B.V. v. Commission, 1978 E.C.R. 207, 277, [1978] 1 C.M.L.R. 429, 486–87 (1978).

As explained by one commentator, “a dominant position gives an enterprise the ability to extract higher prices for its goods or limit its own or others’ outputs without competing on the merits.” Mercer H. Harz, *Dominance and Duty in the European Union: A Look Through Microsoft Windows at the Essential Facilities Doctrine*, 11 EMORY INT’L L. REV. 189, 225 (1997). The ECJ considers many factors when assessing dominance, including “market share, economic strength (including profitability), and ability to dictate actions of competitors and suppliers.” *Id.* In practice, however, a market share of at least forty to forty-five percent generally establishes dominance. Christian Ahlborn et al., *Competition Policy in the New Economy: Is European Competition Law Up to the Challenge?*, 22 EUR. COMPETITION L. REV. 156, 162 & n.34 (2001). See, e.g., Case C-62/86, AKZO Chemie BV v. Commission, 1991 E.C.R. I-3439, I-3453, [1993] 5 C.M.L.R. 215, 279 (1993) (“With regard to market shares the Court has held that very large shares are in themselves, and save in exceptional circumstances, evidence of the existence of a dominant position That is the situation where there is a market share of 50%”) (citing Case 85/76, Hoffman-La Roche & Co. AG v. Commission, 1979 E.C.R. 461, 521, [1979] 3 C.M.L.R. 211, 275 (1979)); Commission Decision 88/589/EEC of November 4, 1988, Case IV/32.318, London European Airways PLC v. Sabena, Belgian World Airlines, 1988 O.J. (L 317) 47, 52, [1989] 4 C.M.L.R. 662, 672 (1989) (“Although the Court has ruled that a 45% share does not automatically entail control of the market . . . the ratio of market shares held . . . is . . . a reliable indicator.”) (citation omitted).

63. Christopher Stothers, *Refusal to Supply as Abuse of a Dominant Position: Essential Facilities in the European Union*, 22 EUR. COMPETITION. L. REV. 256, 256 (2001).

64. Mats A. Bergman, *The Role of the Essential Facilities Doctrine*, 46 ANTITRUST BULL. 403, 414 (2001).

position. According to NDC, without this license, NDC would be barred from operating in Germany, the largest pharmaceutical market of the EC, and would also be unable to enter contracts for multi-jurisdictional coverage because it would be precluded from providing German reports.⁶⁵ Allegedly, IMS's conduct would foreclose the market to potential new entrants and eliminate all prospects of competition in Germany.⁶⁶ NDC requested from the Commission immediate relief in the form of an interim order compelling IMS to grant NDC a license in the 1860 brick structure.⁶⁷ IMS countered, *inter alia*, that its copyright in the 1860 brick structure, upheld by the German courts, entitled IMS to refuse to license to its competitors.⁶⁸

Finding that IMS's rivals had established a *prima facie* case that the 1860 brick structure was "indispensable to compete on the relevant market,"⁶⁹ the Commission decided on July 3, 2001 to grant interim relief⁷⁰ in the form of an order requiring IMS immediately to grant licenses for the 1860 brick structure on reasonable, non-discriminatory terms to all firms currently operating in the market for German regional sales data services, until conclusion of the legal proceedings.⁷¹ European Commissioner for Competition Mario Monti emphasized the singularity of the Commission's decision, declaring it "a rare step" and the market concerned "a very peculiar one."⁷²

Upon IMS's request, the President of the Court of First Instance (CFI),⁷³ in the first such *ex parte* order in nearly twenty years,⁷⁴ provision-

65. Commission Decision of 3 July 2001, *supra* note 10, at 19.

66. *EU Opens Infringement Procedure Against U.S. Firm in Drug Data Collection*, ANTITRUST & TRADE REG. DAILY, Mar. 16, 2001 (BNA), available at WESTLAW, BNA Antitrust & Trade Regulation Daily Database.

67. Commission Decision of 3 July 2001, *supra* note 10, at 19.

68. *Id.* at 42 (noting that IMS cited Case 238/87, *AB Volvo v. Erik Veng (UK) Ltd.*, 1988 E.C.R. I-6211, [1989] 4 C.M.L.R. 122 (1989), for the proposition that it could refuse to license its copyright to competitors), at 44 (stating that IMS claimed that the German courts had already established that IMS's legitimate commercial interests outweighed those of its competitors).

69. *Id.* at 43.

70. The Commission rarely resorts to interim measures, having done so in fewer than fifteen instances during the more than twenty years that it has enjoyed the power to do so. Commission Starts Procedure Against IMS, *supra* note 29.

71. Commission Decision of 3 July 2001, *supra* note 10, at 46-48; Press Release, Commission of the European Communities, Commission Imposes Interim Measures on IMS Health in Germany, IP/01/941, at <http://europa.eu.int/rapid/start/cgi/guesten.ksh> (July 3, 2001) [hereinafter Commission Imposes Interim Measures on IMS].

72. Commission Imposes Interim Measures on IMS, *supra* note 71.

73. The CFI, the ECJ's trial court, "is generally the first court to hear competition-related cases, and parties may appeal its decisions to the ECJ." Harz, *supra* note 62, at 193.

ally suspended the operation of the Commission's interim decision.⁷⁵ On October 26, 2001, the President of the CFI issued an interim order that overruled the Commission's order of compulsory licensing, holding that IMS should not be forced to license its intellectual property pending the CFI's final judgment on the merits of the case.⁷⁶ The interim order of the President of the CFI relied upon three principles of EC competition law. First, prior case law had deemed a refusal to deal abusive only where a firm that was dominant in an *upstream market* refused to deal with rivals in a way that impeded competition in a *downstream market*, whereas IMS's refusal to deal arguably affected competition only in the very same market.⁷⁷ Second, the President of the CFI was not convinced that IMS's competitors had established "exceptional circumstances," as set forth in *Magill*, that would support an order of compulsory licensing,⁷⁸ emphasizing that it was not clear that IMS had prevented the emergence of a new product demanded by consumers.⁷⁹ Third, the interim order of the President of the CFI was based at least in part on the belief that the Commission had not accorded sufficient respect to German court judgments upholding IMS's copyright.⁸⁰ NDC appealed the interim order of the President of the CFI, but the President of the ECJ dismissed this appeal in its entirety, such that IMS was free of any obligation to license the brick structure to its rivals

74. *Cleary Gottlieb Wins Euro Court Victory Against EC*, LAWYER, Nov. 12, 2001, available at 2001 WL 11473885 [hereinafter *Cleary Gottlieb Wins*].

75. *CFI Order of 10 August 2001*, *supra* note 38, paras. 27–29.

76. *CFI Order of 26 October 2001*, *supra* note 22, paras. 149–50; see also *Cleary Gottlieb Wins*, *supra* note 74.

77. *CFI Order of 26 October 2001*, *supra* note 22, paras. 80–81. See *infra* notes 126–142 and accompanying text for an analysis of the requirement under EC competition law that two separate markets are necessary in order to establish a violation of Article 82(b) of the EC Treaty.

78. See *supra* notes 3–5 and accompanying text. See *infra* notes 119–122 and accompanying text for discussion of the criterion for "exceptional circumstances" set forth by *Magill*.

79. *CFI Order of 26 October 2001*, *supra* note 22, paras. 100–106. See *infra* notes 142–146 and accompanying text for an analysis of the requirement under EC competition law that a dominant firm's refusal to deal with competitors must actually impede the emergence of a new product demanded by consumers in order to constitute a violation of Article 82(b) of the EC Treaty.

80. See *CFI Order of 26 October 2001*, *supra* note 22, para. 124 (declaring that since "the Landgericht Frankfurt has recognised that the creative effort underlying the 1 860 brick structure is worthy of copyright protection, [IMS] is justified in invoking the genuine risk of devaluation of its copyright"); see also *CFI Order of 10 August 2001*, *supra* note 38, para. 25 (criticizing the Commission's failure "at least on an initial assessment, to address the argument made by [IMS] that [the interim measures] legitimise conduct that was previously illegitimate and are thus inappropriate . . ."). But cf. *supra* notes 50–56 and accompanying text (explaining the present uncertainty surrounding the precise parameters of IMS's intellectual property rights in the 1860 brick structure).

pending final resolution of the ongoing competition proceedings by the EC courts.⁸¹

As the EC courts continued to evaluate whether to require IMS to engage in compulsory licensing of the 1860 brick structure, a judgment of the Frankfurt Higher Regional in the contemporaneous intellectual property proceedings absolved IMS of any responsibility to license the 1860 brick structure, in light of the fact that it could not do so absent the consent of its co-authors.⁸² These parallel proceedings created a potential for conflict between the national intellectual property law of Germany and EC competition law.⁸³ For this reason, the Frankfurt District Court elected in July 2001 to refer to the ECJ certain questions concerning the interpretation of Article 82 of the EC Treaty.⁸⁴

III. THE ECJ JUDGMENT IN IMS HEALTH GMBH & CO. OHG V. NDC HEALTH GMBH & CO. KG

On April 29, 2004, the ECJ fulfilled the Frankfurt District Court's request for a preliminary ruling on certain aspects of Article 82 of the EC Treaty, rendering its judgment in *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG*.⁸⁵ The ECJ answered the following three questions posed to it by the Frankfurt District Court:

1. Is Article 82 EC to be interpreted as meaning that there is abusive conduct by an undertaking with a dominant position on the market where it refuses to grant a licence agreement for the use of a data-

81. Case C-481/01 P(R), *NDC Health Corp. & NDC Health GmbH & Co. KG v. IMS Health Inc.*, Order of the President of the Court, [2002] 5 C.M.L.R. 1, 44 (2002). In addition, in August 2003 the Commission withdrew its interim order requiring IMS to license the brick structure on the grounds that such urgent relief was no longer necessary for either NDC or AzyX. Commission Decision of 13 August 2003, *supra* note 54, at 71. The former firm had achieved success with an alternative brick structure and the latter had ceased altogether its operation in the German market as of March 2003. *Id.*

82. *See supra* notes 56–57 and accompanying text.

83. “While the EC Treaty provides that intellectual property protection is in the first instance a matter for the Member States, the Commission, and, ultimately, the EC courts, nonetheless possess the authority to interpret EC competition law so as to trump national copyright law.” Gitter, *supra* note 59, at 231 (citation omitted).

It should be noted that after Advocate General Tizzano issued his opinion in the IMS action, *see supra* note 25, NDC publicly stated that it has developed a “legally distinct” brick structure and therefore no longer needs a license from IMS. *See EU Court Opens Door to Intellectual Property Licensing*, WALL ST. J. (online edition), Oct. 2, 2003. Nonetheless, the ECJ's judgment in the IMS action remains important in signaling to owners of intellectual property the extent of their rights.

84. *See* Case C-418/01: Reference for a Preliminary Ruling by the Landgericht Frankfurt am Main by Order of That Court of 12 July 2001 in the Case of *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co.*, 2002 O.J. (C 3) 16. The Frankfurt District Court referred these questions pursuant to Article 234 of the EC Treaty. *See supra* note 7.

85. ECJ Judgment of 29 April 2004, *supra* note 1.

bank protected by copyright to an undertaking which seeks access to the same geographical and actual market if the participants on the other side of the market, that is to say potential clients, reject any product which does not make use of the databank protected by copyright because their set-up relies on products manufactured on the basis of that databank?

2. Is the extent to which an undertaking with a dominant position on the market has involved persons from the other side of the market in the development of the databank protected by copyright relevant to the question of abusive conduct by that undertaking?
3. Is the material outlay (in particular in regard to costs) in which clients who have hitherto been supplied with the product of the undertaking having a dominant market position would be involved if they were in future to go over to purchasing the product of a competing undertaking which does not make use of the databank protected by copyright relevant to the question of abusive conduct by an undertaking with a dominant position on the market?⁸⁶

As noted by Advocate General Tizzano in his opinion in the IMS action,⁸⁷ the first question posits that IMS occupies a dominant position in the market for pharmaceutical sales data and that the 1860 brick structure is “essential” in order to operate in that market.⁸⁸ Assuming these facts are correct, this question inquires whether it would constitute a violation of Article 82 for the dominant firm to refuse to license its intellectual property even if such refusal does not restrict competition in a *separate market* from that where the copyright holder uses its rights, but rather impedes potential

86. *Id.* para. 17.

87. The ECJ is made up not only of fifteen judges appointed by consensus among the Member States, but also of eight advocates general, appointed by the Member States acting collectively, whose task is “to provide the Court with an impartial and reasoned submission on the cases before it so as to assist it in giving judgment.” PHILIP RAWORTH, INTRODUCTION TO THE LEGAL SYSTEM OF THE EUROPEAN UNION 81–82 (2001). Professor Korah describes the role of the advocates general as follows:

Advocates General are full members of the ECJ of equal status with the judges. Often their opinions provide fuller and more cogent reasoning, as they do not have to compromise. Independent judges, who never dissent or write individual opinions, may not be able to agree on the substance of their collegiate judgment but have to agree on its words, so much theory gets out, and even the minimum necessary to arrive at a result may be fudged.

Valentine Korah, *Access to Essential Facilities Under the Commerce Act in the Light of Experience in Australia, the European Union and the United States*, 31 VICTORIA U. WELLINGTON L. REV. 231, 250 n.69 (2000). The opinion of the advocate general in a given action typically precedes the judgment of the ECJ judges, who often refer to the advocate general’s opinion in their ruling.

88. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 29.

competitors from operating in the *same market* as the dominant firm.⁸⁹ Advocate General Tizzano explained that the second and third questions posed by the Frankfurt District Court examine further a key assumption upon which the first question is based: whether the 1860 brick structure is indeed indispensable for competitors seeking to enter the German market for pharmaceutical sales data, such that IMS's refusal to license would violate Article 82(b) of the EC Treaty.⁹⁰

In order to respond to the questions set forth by the Frankfurt District Court, the ECJ considered previous judgments pertaining to the essential facilities doctrine in order to determine whether the 1860 brick structure constitutes an essential, or indispensable, facility such that IMS's refusal to license it constituted a violation of Article 82(b).⁹¹ The ECJ began with the German regional court's second and third questions, which ask whether customers' involvement in developing the brick structure or their potential costs in switching to an alternative should affect a court's judgment as to whether that intellectual property is indispensable.

A. The ECJ Emphasizes the Relevancy of Customers' Participation in Creating Intellectual Property and Their Potential Costs in Switching to an Alternative in Determining Whether Intellectual Property is Indispensable

In its judgment in the IMS action, the ECJ declared that, when considering whether a dominant firm's refusal to license intellectual property constitutes an abuse of its dominant position, a national court must consider both "the degree of participation by users in the development" of the intellectual property as well as "the outlay, particularly in terms of cost, on the

89. *Id.* para. 30. See *infra* notes 119–135 and accompanying text for an analysis of the requirement under EC competition law that two separate markets are necessary in order to establish a violation of Article 82(b) of the EC Treaty.

90. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 32.

91. *ECJ Judgment of 29 April 2004*, *supra* note 1, paras. 27–47. In a line of cases spanning over thirty years, EC courts have developed the essential facilities doctrine in order to enhance market competition. See generally Gitter, *supra* note 59 (providing a comprehensive discussion of the historical development of the essential facilities doctrine in EC law and its application to the IMS action). The essential facilities doctrine provides that "a company which has a dominant position in the provision of facilities which are essential for the supply of goods or services on another market abuses its dominant position where, without objective justification, it refuses access to those facilities." Case C-7/97, Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, (Opinion of Advocate General Jacobs of 28 May 1998) 1998 E.C.R. I-7791, I-7802, [1999] 4 C.M.L.R. 112, 124 (1998). While the ECJ did not mention the essential facilities doctrine by name in its judgment in the IMS action, Advocate General Tizzano did invoke the doctrine expressly. See *Opinion of Advocate General Tizzano*, *supra* note 25, para. 35 (referring specifically to the essential facilities doctrine).

part of potential users” if they were to switch to an alternative system.⁹² These two factors are closely linked, since the higher the degree of user participation in creating the intellectual property, the more likely that these users have become dependent upon it and will face unacceptably high economic obstacles in switching to an alternative.⁹³

The ECJ was not persuaded by IMS’s argument that pharmaceutical firms’ involvement in creating the brick structure provided evidence of competition, in that it signaled IMS’s need to employ the industrious strategy of garnering client input in order to gain a competitive advantage.⁹⁴ Nor did the ECJ accept IMS’s contention that the economic obstacles faced by clients wishing to switch to an alternative brick structure potentially could be offset by the advantages of the competing product.⁹⁵

The ECJ instead emphasized that, pursuant to its judgment in *Bronner*,⁹⁶ the proper criterion for determining whether the brick structure is indispensable is whether a competitor could avail itself of or create an “economically viable” alternative.⁹⁷ *Bronner* concerned the upstream market for newspaper distribution in Austria and the downstream market for newspaper publishing and sales.⁹⁸ Oscar Bronner, the publisher of a daily newspaper with a small market share, *Der Standard*, sought an order from the ECJ requiring its dominant competitor, Mediaprint, to distribute *Der Standard* in Austria through Mediaprint’s nationwide early-morning newspaper home delivery network.⁹⁹ The ECJ declined to issue such an order, declar-

92. *ECJ Judgment of 29 April 2004, supra* note 1, para. 30.

93. *See id.* para. 29 (finding it likely that users with a high level of participation in improvement of brick structures would face exceptional organizational and financial barriers in switching to a different structure).

94. *See id.* paras. 26, 30. IMS contended that judicial imposition of an obligation to license in cases where a dominant firm developed intellectual property using client input would be counterproductive, causing companies to avoid customer contact during product development. *Opinion of Advocate General Tizzano, supra* note 25, para. 69.

95. *See ECJ Judgment of 29 April 2004, supra* note 1, para. 26.

96. Case C-7/97, Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, [1999] 4 C.M.L.R. 112 (1998) [hereinafter *Bronner*].

97. *ECJ Judgment of 29 April 2004, supra* note 1, para. 28.

98. *Bronner*, 1998 E.C.R. at I-7821, [1999] 4 C.M.L.R. at 137–38. Although *Bronner* did not involve intellectual property, both the ECJ and Advocate General Jacobs expressly extended their opinions to encompass this subject. *See* Case C-7/97, Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, (Opinion of Advocate General Jacobs of 28 May 1998) 1998 E.C.R. I-7791, I-7812 to I-7814, [1999] 4 C.M.L.R. 112, 133–35 (1998) [hereinafter *Opinion of Advocate General Jacobs*]; *Bronner*, 1998 E.C.R. at I-7830 to I-7831, [1999] 4 C.M.L.R. at 144–45; *see also* Pat Treacy, *Essential Facilities—Is the Tide Turning?*, 19 EUR. COMPETITION L. REV. 501, 503 (1998) (stating that Advocate General Jacobs “went out of his way to extend his Opinion to deal with intellectual property”).

99. *Bronner*, 1998 E.C.R. at I-7821, [1999] 4 C.M.L.R. at 137–38.

ing that, in order to establish that Mediaprint's home delivery scheme was indispensable, Bronner would have to demonstrate that there was no alternative method of distributing daily newspapers, and that there existed "technical, legal or even economic obstacles" making it "impossible, or even unreasonably difficult" to create an "economically viable" alternative home-delivery system of a scale comparable to the existing scheme.¹⁰⁰

While stating that, in the IMS action, "[i]t is for the national court to determine, in the light of the evidence submitted," whether IMS's competitors could create an economically viable alternative to the 1860 brick structure, the ECJ noted that factors such as a high degree of participation by pharmaceutical manufacturers in the development of the 1860 brick structure would suggest that any competing structure would not be viable.¹⁰¹ Client participation in the creation protected by copyright, if proven, likely "has created a dependency by users in regard to that structure, particularly at a technical level."¹⁰² According to the ECJ, "[i]n such circumstances, it is likely that those laboratories would have to make exceptional organisational and financial efforts" in order to switch to an alternative brick structure.¹⁰³ The supplier of such an alternative structure would have to offer it at extremely favorable terms in order to attract clients, thus, preventing an alternative structure from being economically viable, and rendering the 1860 brick structure indispensable.¹⁰⁴ Pursuant to the ECJ's judgment in the IMS action, the German national court must consider both the degree of client participation in developing the intellectual property as well as clients' costs in switching to an alternative in deciding whether the 1860 brick structure is indispensable.¹⁰⁵

100. *Id.* at I-7831 to I-7832, [1999] 4 C.M.L.R. at 145.

101. *ECJ Judgment of 29 April 2004, supra* note 1, para. 29.

102. *Id.*

103. *Id.*

104. *Id.*

105. *See id.* para. 30.

[F]or the purposes of examining whether the refusal by an undertaking in a dominant position to grant a license for a brick structure protected by copyright which it owns is abusive, the degree of participation by users in the development of that structure and the outlay, particularly in terms of cost, on the part of potential users in order to purchase studies on regional sales of pharmaceutical products presented on the basis of an alternative structure, are factors which must be taken into consideration in order to determine whether the protected structure is indispensable for the marketing of studies of that kind.

Id. Advocate General Tizzano drew the same conclusion in his opinion. *See Opinion of Advocate General Tizzano, supra* note 25, paras. 83-86.

B. The ECJ Applies the Magill Criteria

After establishing that clients' participation in developing intellectual property and their costs of switching to an alternative affect the assessment of whether that intellectual property is indispensable, the ECJ considered the circumstances under which a dominant firm is obliged to license that intellectual property so as to comply with Article 82 of the EC Treaty.¹⁰⁶ The ECJ had addressed this issue previously in *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd. (ITP) v. Commission*, called "Magill" after the eponymous intervenor.¹⁰⁷ In *Magill*, the ECJ declared that under certain "exceptional circumstances" a dominant firm's mere refusal to license its intellectual property to a third party could violate Article 82¹⁰⁸ and that compulsory licensing is a potential remedy for such an abuse.¹⁰⁹

1. *The Background to the Magill Action.* The *Magill* action arose when three television stations broadcasting in Ireland and Northern Ireland, Radio Telefis Eireann (RTE) of Ireland, as well as the British Broadcasting Corporation (BBC) and Independent Television Publications Ltd. (ITP), both of the U.K., all refused to license their copyrights in the information contained in their respective television program listings to the Irish publisher Magill TV Guide Ltd. (Magill).¹¹⁰ Each broadcaster published its own weekly guide to its respective radio and television programs, but declined to permit daily or periodical newspapers to publish complete details of the broadcaster's programs more than a day or two in advance, thereby precluding the emergence of a single independent and comprehensive weekly program listing for all the stations.¹¹¹ Consequently, consumers in Ireland and Northern Ireland were the only EC citizens who had to buy separate weekly guides for each television station in order to obtain information on all programs.¹¹²

106. *ECJ Judgment of 29 April 2004, supra* note 1, paras. 31-32.

107. Joined Cases C-241/91 & C-242/91 P, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd. (ITP) v. Commission*, [1995] E.C.R. I-743, [1995] 4 C.M.L.R. 719 [hereinafter *Magill*].

108. *Id.* at I-822 to I-825, [1995] 4 C.M.L.R. at 790-91.

109. *Id.* at I-833 to I-834, [1995] 4 C.M.L.R. at 797-98.

110. *Id.* at I-811 to I-812, [1995] 4 C.M.L.R. at 782-83.

111. *Id.*

112. Joined Cases C-241/91 & C-242/91 P, *Radio Telefis Eireann (RTE) & Indep. Television Publ'ns Ltd. v. Commission*, (Opinion of Advocate General Gulmann of 1 June 1994) 1995 E.C.R. I-743, I-748 to I-749, [1995] 4 C.M.L.R. 718, 726-27 (1995) [hereinafter *Opinion of Advocate General Gulmann*].

In 1986, Magill published for a brief time a comprehensive weekly television guide that competed with the broadcasters' guides, and the three broadcasters responded by commencing copyright actions in the Irish and English national courts.¹¹³ Similarly to the IMS action, the national courts upheld the copyrights,¹¹⁴ and Magill lodged a complaint with the Commission alleging that the three broadcasters' refusals to license constituted an abuse of dominant position in violation of Article 82.¹¹⁵ The Commission required the broadcasters to grant Magill copyright licenses,¹¹⁶ and both the CFI¹¹⁷ and the ECJ upheld the Commission decision.¹¹⁸

The ECJ set forth in *Magill* "exceptional circumstances" that must be present before a mere refusal to license intellectual property, absent any other anticompetitive behavior, constitutes a violation of Article 82.¹¹⁹ First, the refusal to license must prevent "the appearance of a new product" for which there is "potential consumer demand."¹²⁰ Second, the refusal to license must lack any business justification.¹²¹ Third, the refusal to license must have the effect of excluding all competition in a secondary, down-

113. *Id.* at I-749 to I-750, [1995] 4 C.M.L.R. at 727.

114. *Id.*; see also Case T-69/89, *Radio Telefis Eireann v. Commission*, 1991 E.C.R. II-485, II-494 to II-495, [1991] 4 C.M.L.R. 586, 595-96 (1991) (Ct. First Instance) [hereinafter *RTE*] (quoting the Irish High Court's judgment in favor of the broadcasters under Irish copyright law); Case T-76/89, *Indep. Television Publ'ns Ltd. v. Commission*, 1991 E.C.R. II-575, II-582 to II-583, [1991] 4 C.M.L.R. 745, 752-53 (1991) (Ct. First Instance) [hereinafter *ITP*] (same); Commission Decision 89/205/EEC of 21 December 1988, Case IV/31.851, *Magill TV Guide/ITP, BBC and RTE*, 1989 O.J. (L 78) 43, 45 (citation omitted) [hereinafter *Commission Decision in Magill*] (stating that the U.K. courts expressly confirmed copyright protection for television program listings under U.K. law).

115. *Opinion of Advocate General Gulmann*, 1995 E.C.R. at I-750, [1995] 4 C.M.L.R. at 727.

116. Commission Decision in *Magill*, 1989 O.J. (L 78) at 50-51.

117. See *RTE*, 1991 E.C.R. at II-523, [1991] 4 C.M.L.R. at 620; Case T-70/89, *British Broadcasting Corp. & BBC Enters. Ltd. v. Commission*, 1991 E.C.R. II-535, II-568, [1991] 4 C.M.L.R. 669, 698 (1991) (Ct. First Instance) [hereinafter *BBC*]; *ITP*, 1991 E.C.R. at II-604, [1991] 4 C.M.L.R. at 770.

118. *Magill*, 1995 E.C.R. at I-825, I-837, [1995] 4 C.M.L.R. at 791, 799.

119. *Id.* at I-823, [1995] 4 C.M.L.R. at 790. Of course, the mere refusal to license intellectual property cannot in itself constitute an abuse of a dominant position, or else the law would deprive holders of intellectual property of the very essence of the right conferred by intellectual property protection, the right to exclude others from using it. See *ECJ Judgment of 29 April 2004*, *supra* note 1, para. 34 (citing Case 238/87, *AB Volvo v. Erik Veng (UK) Ltd. (Volvo)*, 1988 E.C.R. I-6211, 6235, [1989] 4 C.M.L.R. 122, 135 (1989), and *Magill*, 1995 E.C.R. at I-823, [1995] 4 C.M.L.R. at 790). As observed by Advocate General Tizzano, such an interpretation would "have very serious and undesirable consequences for the market economy inasmuch as it would deprive the owners of an intellectual property right of the due recompense for their creative endeavour and would act as a disincentive to investments in innovation and research." *Opinion of Advocate General Tizzano*, *supra* note 25, para. 34.

120. *Magill*, 1995 E.C.R. at I-824, [1995] 4 C.M.L.R. at 791. In *Magill*, the ECJ recognized a comprehensive weekly television guide as a new product. *Id.*

121. *Id.*

stream market.¹²² While it remained ambiguous after *Magill* whether these three criteria were cumulative,¹²³ the ECJ stated explicitly in its IMS judgment that they were indeed cumulative¹²⁴ and proceeded to apply them in the instant action.¹²⁵

2. *The ECJ Accepts a “Potential” or “Hypothetical” Market to Satisfy the Two-Market Criterion in Magill.* The ECJ began its application of the *Magill* criteria to the IMS action by analyzing the third condition, that refusal to license the intellectual property must have the effect of excluding all competition in a *secondary, downstream* market for it to be deemed abusive.¹²⁶ The reason for the two-market requirement is that firms undoubtedly would decline to enter a particular market if they had to share their essential facility with rivals competing *in exactly the same market*.¹²⁷ With respect to intellectual property in particular, the very essence of that right is the ability to exclude others from using it, and the inability to do so will destroy incentives to invest in the creation of intellectual property.¹²⁸

In order to interpret the two-market requirement in the context of the IMS action, IMS, NDC, and the Commission all relied upon *Magill*, a case involving intellectual property, but applied the precedent differently. IMS sought to distinguish its situation from *Magill* by asserting that IMS’s rivals did not seek access to the 1860 brick structure in order to compete in a secondary market, but rather to operate in the very same market for regional pharmaceutical sales data services in Germany.¹²⁹ According to IMS, all previous judgments of the EC courts and all Commission decisions in es-

122. *Id.* In *Magill*, the ECJ recognized two separate markets, the upstream market in television program listings and the downstream market in television guides. *See id.* (referring to “the secondary market of weekly television guides”).

123. In a 2002 article written before the ECJ judgment in the IMS action, Professor Korah suggested that she read the “special circumstances [in *Magill*] as being cumulative, but later cases have suggested that they are alternatives.” Valentine Korah, *The Interface Between Intellectual Property and Antitrust: The European Experience*, 69 ANTITRUST L.J. 801, 811 (2002).

124. *ECJ Judgment of 29 April 2004, supra* note 1, para. 38.

125. *Id.* paras. 46–52.

126. *Id.* para. 46; *see also supra* note 122 and accompanying text.

127. Gitter, *supra* note 59, at 278.

128. *See supra* note 119. Commentators have observed that the essential facilities doctrine “is most likely to condemn intellectual property in precisely those circumstances in which this result is least defensible,” because, in general, “the more an invention is unique, valuable, and difficult to duplicate, the greater is the obligation to share it.” Abbott B. Lipsky, Jr. & J. Gregory Sidak, *Essential Facilities*, 51 STAN. L. REV. 1187, 1219 (1999).

129. *ECJ Judgment of 29 April 2004, supra* note 1, para. 32.

essential facilities actions involved distinct upstream and downstream markets.¹³⁰

NDC, however, maintained that two distinct markets are not essential in order for the ECJ to find that a refusal to license violates Article 82.¹³¹ According to NDC, pursuant to *Magill*, the ECJ could find that a dominant firm's refusal to license an indispensable facility violated Article 82 simply because that firm holds a monopoly on information necessary for competing with it, even if that information is not offered on a separate market.¹³²

For its part, the Commission interpreted the two-market requirement set forth in *Magill* by focusing upon various stages of production as opposed to the existence of separate markets.¹³³ The Commission maintained that, in order to satisfy the third condition of *Magill*, the essential input "must be distinguishable from the downstream goods or services and between it and the downstream product or service added value must be created."¹³⁴ According to the Commission, this reasoning applies even where the essential input is an intangible asset protected by copyright, since the dominant company's refusal to license would extend beyond the purpose of the copyright, effectively granting that company a monopoly over the market for the downstream product or service.¹³⁵ The Commission thus recognized two separate markets in the IMS action, an upstream market in the

130. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 35 n.33 (listing several cases mentioned by IMS as standing for the proposition that previous essential facilities case law had always involved two distinct markets). *See also CFI Order of 26 October 2001*, *supra* note 22, para. 80 ("The previous case-law where the Community judicature and, before the adoption of [the Commission Decision of 3 July 2001], the Commission have considered refusal to supply by a dominant undertaking in such circumstances to be abusive has always involved two different markets.").

131. *ECJ Judgment of 29 April 2004*, *supra* note 1, para. 33.

132. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 41. It should be noted, however, that in *Magill* the ECJ did recognize two separate markets, the upstream market in television program listings and the downstream market in television guides. *See Magill*, 1995 E.C.R. I-743, I-824, [1995] 4 C.M.L.R. 718, 791 (1995) (stating that the broadcasters had "reserved to themselves the secondary market of weekly television guides by excluding all competition on that market"); *see also* Landolt & Ysewyn, *supra* note 12, at 20 (stating that the market for television listings is a "severable offshoot of a separate and distinguishable activity, that is television broadcasting"). Indeed, even before *Magill* sought licenses from the broadcasters, a downstream market of sorts existed for the television listings in the sense that daily and periodical newspapers sought and received permission to reprint an abbreviated version of the listings. *Magill*, 1995 E.C.R. at I-812, [1995] 4 C.M.L.R. at 782-83. On the other hand, the information protected by copyright did not command a price on this market, and was provided to the newspapers free of charge. *Id.*

133. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 43.

134. *Id.*

135. *Id.* para. 45. *See also* Patterson, *supra* note 8, at 1076-78 (stating that IMS's copyright in the 1860 brick structure does not entitle it to monopoly profits in the market for pharmaceutical sales data services).

1860 brick structure protected by copyright and a downstream market for regional pharmaceutical sales data services in Germany.¹³⁶

The ECJ resolved the debate over the two-market hypothesis, stating that there need not exist two entirely separate markets so long as “a potential market or even hypothetical market can be identified” for the upstream input.¹³⁷ Invoking *Bronner*, the ECJ noted that the fact that the dominant firm, Mediaprint, did not market its nationwide newspaper distribution service separately “was not regarded as precluding, from the outset, the possibility of identifying a separate market” for the publication and sale of newspapers.¹³⁸ The ECJ cited with approval the Opinion of Advocate General Tizzano,¹³⁹ who stated that he considered it “sufficient that it is *possible to identify* a market in upstream inputs, even where the market is a potential one only.”¹⁴⁰ He set forth the following legal test for identifying a separate market for upstream inputs, even if they are not marketed independently:

- a) [T]he inputs in question are essential (since they cannot be substituted or duplicated) to operating on a given market; [and]
- b) there is actual demand for them on the part of undertakings seeking to operate on the market for which those inputs are essential.¹⁴¹

As for the application of this test to the facts of the IMS action, Advocate General Tizzano expressed the opinion that “it is not hard to identify an upstream market for access to the brick structure (monopolised by the owner of the copyright) and a secondary downstream market for the sale of the studies” of regional pharmaceutical sales.¹⁴² In light of the national

136. Commission Decision of 3 July 2001, *supra* note 10, at 43.

137. *ECJ Judgment of 29 April 2004*, *supra* note 1, para. 44.

138. *Id.* para. 43. As observed by Advocate General Tizzano with respect to *Bronner*, although Mediaprint did not market separately its nationwide service for home delivery of newspapers, Mediaprint did furnish this service to a third party. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 56 n.48. While this fact might suggest the existence of an entirely autonomous market for newspaper home delivery services, Mediaprint did not market its newspaper delivery service independently, but rather included it as part of a package with other services, including printing and distribution to kiosks. *Id.*; see also *Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG*, 1998 E.C.R. I-7791, I-7821, [1999] 4 C.M.L.R. 112, 138 (1998) (describing Mediaprint’s sale of bundled services to an independent publisher).

Advocate General Tizzano also noted that in *Magill* the ECJ identified a separate market in television listings even though the broadcasters did not market the listings independently, but furnished them free of charge to certain newspapers. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 56. See also *supra* note 132 and accompanying text (describing the dissemination of the television listings at issue in *Magill*).

139. *ECJ Judgment of 29 April 2004*, *supra* note 1, para. 44.

140. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 57.

141. *Id.* para. 59.

142. *Id.* para. 60.

court's role in determining factual matters,¹⁴³ the ECJ referred to the German national court the question whether the 1860 brick structure is an upstream product that is indispensable for the downstream supply of German regional sales data relating to pharmaceutical products.¹⁴⁴

3. *The ECJ Reiterates the Magill Requirement That a Refusal to License Is Abusive Only Where It Prevents the Emergence of a New Product.*

The ECJ then turned to the first criterion set forth in *Magill* as necessary to support a finding of abuse of a dominant position in violation of Article 82, the requirement that a dominant firm's refusal to license inhibits the emergence of a new product for which there is potential consumer demand.¹⁴⁵ The ECJ held that the refusal by a dominant firm to license intellectual property that is indispensable for operating in a secondary market is abusive only where the firm requesting the license "does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the copyright, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand."¹⁴⁶ The reason for this requirement is to enhance market competition for the ultimate benefit of consumers, which is the fundamental goal of competition law.¹⁴⁷

143. See *supra* note 7 and accompanying text.

144. *ECJ Judgment of 29 April 2004, supra* note 1, para. 47.

145. See *supra* note 120 and accompanying text.

146. *ECJ Judgment of 29 April 2004, supra* note 1, para. 49.

Advocate General Tizzano had described this requirement somewhat differently, stating that the party requesting a license cannot

limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the intellectual property right but intends to produce goods or services of a different nature which, although in competition with those of the owner of the right, answer specific consumer requirements not satisfied by existing goods or services.

Opinion of Advocate General Tizzano, supra note 25, para. 66.

Some commentators have criticized Advocate General Tizzano's formulation of this test as too easily satisfied by potential competitors, as it requires merely a product with different characteristics, as opposed to an entirely new product. See Dolmans & Ilan, *supra* note 27, at 15. The wording of the ECJ judgment, however, seems to hew to the original standard set forth in *Magill*. Compare *ECJ Judgment of 29 April 2004, supra* note 1, para. 49 (stating that a refusal to license is abusive only where the party requesting the license "intends to produce new goods or services not offered by the owner of the right and for which there is a potential demand") with *Magill*, 1995 E.C.R. at I-824, [1995] 4 C.M.L.R. at 791 (finding a refusal to license abusive where it "prevented appearance of new product . . . which [the owner of the right] did not offer and for which there is a potential customer demand").

147. See Case C-7/97, Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, (Opinion of Advocate General Jacobs Delivered on 28 May 1998) 1998 E.C.R. I-7791, I-7811, [1999] 4 C.M.L.R. 112, 132-33 (1998) (emphasizing that "it is important not to lose sight of the fact that the primary purpose of [Article 82] is to prevent distortion of competition — and in particular to safeguard the interests of consumers — rather than to protect the position of particular competitors").

NDC asserted that it does indeed intend to offer a different, better product, namely a superior method of presenting regional sales data to pharmaceutical clients. According to NDC, its product would present a wider and more useful spectrum of data, offer convenient online accessibility, and feature a more customer-friendly format.¹⁴⁸ IMS, however, contended that NDC sought access to the 1860 brick structure simply to offer a duplicative product.¹⁴⁹ The ECJ referred this factual determination to the German national court.¹⁵⁰

4. *The ECJ Focuses Little on the Magill Requirement That a Refusal to License Must Prove “Unjustified” for it to Violate Competition Law.* The ECJ paid only cursory attention to the final Magill requirement, that the intellectual property holder’s refusal to license must prove unjustified in order for it to violate Article 82.¹⁵¹ In general, EC case law provides little guidance as to what types of business justifications constitute legitimate defenses in a refusal to supply case.¹⁵² What is clear is that it is lawful for a dominant firm to compete on the basis of performance, even if such competition excludes rivals.¹⁵³ However, while a “dominant company may always make its own goods or services better for consumers,” it “may not take steps that merely make its competitors’ worse or discriminate against its downstream competitor.”¹⁵⁴ The test of the legitimacy of the business justification proffered for the refusal to supply is an objective one that

148. *Opinion of Advocate General Tizzano*, *supra* note 25, paras. 39–40.

149. *See id.* para. 36 (stating that IMS contends that NDC seeks access to the 1860 brick structure in order to furnish an “almost identical” product).

150. *ECJ Judgment of 29 April 2004*, *supra* note 1, para. 49–50.

151. *See supra* note 121 and accompanying text.

152. Gitter, *supra* note 59, at 249 n.155; *see also* James S. Venit & John J. Kallaughner, *Essential Facilities: A Comparative Law Approach*, in 1994 FORDHAM CORP. L. INST., INTERNATIONAL ANTITRUST LAW AND POLICY 315, 317 n.6 (Barry E. Hawk ed., 1995) (“There are few, if any, published cases in which a legitimate business justification for a refusal to supply has been accepted by the Courts or the Commission”); John Temple Lang, *Defining Legitimate Competition: Companies’ Duties to Supply Competitors and Access to Essential Facilities*, 18 FORDHAM INT’L L.J. 437, 522 (noting that “there is relatively little case law on what constitutes legitimate business justification” in the EC).

153. VALENTINE KORAH, AN INTRODUCTORY GUIDE TO EC COMPETITION LAW AND PRACTICE 107, 107–08 (7th ed. 2000) (noting that such competition includes “price competition (if not predatory); improvement in quality, including [research & development]; . . . services to customers; even advertising”).

154. Temple Lang, *supra* note 152, at 480; *see also* Christopher Stothers, *The End of Exclusivity? Abuse of Intellectual Property Rights in the E.U.*, 24 EUR. INTELL. PROP. REV. 86, 89 (2002) (“[T]he dominant undertaking must not refuse access for anti-competitive reasons, which include the commercially justifiable aim of reaping a monopoly rent by restricting access to prevent competition.”).

hinges upon the effects of the dominant firm's behavior, rather than its intent.¹⁵⁵

In the IMS action, the ECJ declared that "no specific observations have been made" as to whether IMS's refusal to license the brick structure "is justified by objective considerations."¹⁵⁶ The ECJ then referred this question to the German national court.¹⁵⁷

IV. A CRITIQUE OF THE ECJ JUDGMENT IN IMS HEALTH GMBH & CO. OHG V. NDC HEALTH GMBH & CO. KG

The ECJ's judgment in the IMS action is vulnerable to critique on several grounds, both because it subjects dominant firms to much broader duties to license than had previously been the law under *Magill*, and also because it neglects to clarify some of the legal issues raised by the parties. First, the ECJ placed too much emphasis, in determining whether intellectual property is indispensable, upon the relevancy of customers' participation in creating intellectual property and their potential costs in switching to an alternative. Second, while previous EC cases finding a dominant firm's refusal to supply to be abusive had required the existence of two different markets, meaning that the dominant firm's refusal to license an essential facility had to impede competition in a distinct downstream market, the ECJ accepted a potential or hypothetical market to satisfy the two-market criterion in the IMS action. Third, the ECJ failed to clarify what sort of product will satisfy the condition set forth in *Magill* that a refusal to license cannot be abusive unless it impedes the emergence of a new product. Finally, the ECJ neglected to elucidate the requirement in *Magill* that a refusal to license an indispensable facility must lack any objective business justification in order to be abusive.

155. Temple Lang, *supra* note 152, at 522 (noting that abuse under Article 82 "is normally objective and intent is irrelevant"); see also Korah, *supra* note 153, at 107 (citing Kallaugher for the proposition that "the concept of abuse is objective as opposed to subjective — it does not depend on the ill will of the dominant firm, or even on an intention to foreclose").

156. *ECJ Judgment of 29 April 2004*, *supra* note 1, para. 51. Advocate General Jacobs's opinion in *Bronner* suggests that EC competition authorities and courts would accept many of the same business justifications as U.S. courts, including "legitimate technical or commercial reasons" or "on grounds of efficiency." Case C-7/97, *Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG* (Opinion of Advocate General Jacobs Delivered on 28 May 1998), 1998 E.C.R. I-7791, I-7808, [1999] 4 C.M.L.R. 112, 129 (1998) (citations omitted).

157. *ECJ Judgment of 29 April 2004*, *supra* note 1, para. 51.

A. The ECJ's Judgment in the IMS Action Subjects Firms to Too Broad a Duty to License Their Intellectual Property by Placing Excessive Emphasis on the Relevancy of Customers' Participation in Creating Intellectual Property and Their Switching Costs

In holding that customers' participation in creating intellectual property and their potential costs in switching to an alternative are important factors to consider when deciding whether intellectual property is indispensable, the ECJ gave these factors too much weight. Customer participation in the creation of intellectual property is commonplace and necessary, as it is precisely the value of intellectual property to the user that renders it worthy of protection.¹⁵⁸ Commentators have cited as examples of accepted customer involvement in the creation of intellectual property the beta testing of computer software by its ultimate users, as well as medical manufacturers' consultations with physicians in the development of medical products.¹⁵⁹ Indeed, the very purpose of granting intellectual property protection is to stimulate innovation that will satisfy the demands of the market and that would not otherwise occur absent the incentive provided by intellectual property protection.¹⁶⁰

In the context of the IMS action in particular, while the input of the pharmaceutical firms was undoubtedly helpful in creating the 1860 brick structure, wholesalers and pharmaceutical firms admitted, in a report relating to a recent U.K. merger case involving IMS, that they would not want to develop such pharmaceutical data services themselves.¹⁶¹ The pharmaceutical companies noted that "it would not be cost-effective" for them to carry out such services in-house and that they "lacked the expertise neces-

158. Gitter, *supra* note 59, at 287.

159. Dolmans & Ilan, *supra* note 27, at 16. These authors are, it should be noted, lawyers with the firm that represents IMS in the proceedings before the ECJ, the CFI, and the European Commission. *Id.* at 12.

160. See, e.g., Bergman, *supra* note 64, at 425 (noting that the patent system aims "to stimulate investments by creating exclusive property rights" and that it would therefore prove "inconsistent and detrimental for efficiency to demand that the successful innovator share[] its patents with others").

161. Monopolies and Mergers Commission, *IMS Health Inc. and Pharmaceutical Marketing Services Inc.: A Report on the Merger Situation*, § 2.55, http://www.competition-commission.org.uk/rep_pub/reports/1999/425ims.htm#full (February 1999) [hereinafter Monopolies and Mergers Commission]. One can infer that these multinational pharmaceutical firms were the very same ones surveyed by the Commission in the IMS competition action. Compare *id.* § 2.59 (noting that IMS's customers are often global companies) with Commission Decision of 3 July 2001, *supra* note 10, at 27 (stating that the firms responding to the Commission's survey in the IMS case included "almost all of the largest companies").

sary to do so.”¹⁶² The firms also described collaboration as unlikely “given the extent of competition between the companies,” whereas “IMS, in contrast, has a reputation for neutrality of information, enhancing its value to the pharmaceutical industry.”¹⁶³ Thus, pharmaceutical manufacturers are unlikely to have created the 1860 brick structure on their own, and the availability of intellectual property protection for databases stimulated IMS’s involvement.¹⁶⁴

Customer involvement, while not of great importance in a competition action, is properly considered in the context of an intellectual property action. A significant degree of customer involvement might affect a court’s assessment of who possesses ownership rights in that property, as the Frankfurt Higher Regional Court concluded in the IMS action.¹⁶⁵

The ECJ also erred in holding that customers’ switching costs are relevant for determining whether an intellectual property right is indispensable. As noted previously, these costs arise from the pharmaceutical firms’ need to retain the 1860 brick structure so as to compare current and historical data regarding market shares and sales representatives’ performance; from the fact that other products, such as computer software, have been designed for compatibility with the 1860 structure; and also from the fact that a change in the brick structure would require modification of sales territories, which would not only disturb relationships between doctors and sales representatives, but also engender a complicated legal process of securing the approval of workers’ councils for such changes.¹⁶⁶ Dolmans and

162. Monopolies and Mergers Commission, *supra* note 161, § 2.61.

163. *Id.* § 2.55.

164. In the IMS action in particular, it is difficult to determine the precise role that copyright protection played in encouraging IMS’s efforts in the German market. On the one hand, the 1996 Database Directive pursuant to which IMS claimed protection for the 1860 brick structure, *see supra* note 26 and accompanying text, was not yet in force when IMS entered the German market in the 1970s. On the other hand, copyright protection for databases was available in Germany under the provisions of German law that transpose the Berne Convention, which provides: “Collections of literary or artistic works such as encyclopaedias and anthologies which, by reason of the selection and arrangement of their contents, constitute intellectual creations shall be protected as such, without prejudice to the copyright in each of the works forming part of such collections.” Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, art. 2(5), 25 U.S.T. 1341, 828 U.N.T.S. 221 (as amended). Nevertheless, it was more difficult to obtain copyright protection for databases before the enactment of the Database Directive. E-mail from Hans Christian Liebig, Researcher, University of Mannheim, to Donna M. Gitter, Assistant Professor of Legal and Ethical Studies, Fordham University Schools of Business (Feb. 13, 2003, 09:10:58 GMT +1) (on file with author).

165. *See supra* note 51 and accompanying text (referring to the judgment of the Frankfurt Higher Regional Court recognizing co-authorship of the 1860 brick structure by certain pharmaceutical industry sales agents who participated in its creation).

166. *See supra* notes 31–35 and accompanying text.

Ilan argue that these costs do not make the 1860 brick structure an essential facility because

[c]ustomer preferences and switching costs are not barriers to entry imposed or difficulties caused by a dominant firm and, absent network effects, the cost of switching to the dominant firm's product might be just as high as the cost of switching away from it. The new firm does not normally face costs that the incumbent did not.¹⁶⁷

Certainly, when the pharmaceutical firms first adopted the 1860 brick structure, they faced costs such as making their operations compatible with the structure and adjusting sales representatives' territories.

The argument asserted by Dolmans and Ilan becomes more problematic, however, when they state that "[t]he test of an essential facility is whether competitors are objectively able to develop and offer their own products or services for sale, not whether buyers are willing to buy them."¹⁶⁸ This objective test derives from language in *Bronner* stating that a facility is indispensable only insofar as there are "technical, legal or even economic obstacles" making it "impossible, or even unreasonably difficult" to create an "economically viable" alternative.¹⁶⁹ While Dolmans and Ilan are correct to point out that this objective test hinges on an analysis of competitors' costs, not customer preferences, the reality is that customers' switching costs do indeed affect the viability of competitors' alternatives. If the switching costs facing pharmaceutical firms are prohibitive, IMS's competitors will not be able to compete on the basis of price, and therefore will be objectively unable, as a practical matter, to develop a viable alternative brick structure. Since the purpose of competition law is to protect market competition for the benefit of consumers,¹⁷⁰ courts considering essential facilities cases may wish to consider any potential economic barrier to entry, even if that barrier was not caused by the dominant firm and was likewise faced by the dominant firm at one time.

The response to such an argument, of course, is that the objective test in *Bronner* did not arise in the context of an intellectual property action.¹⁷¹ In cases concerning intellectual property, EC courts must consider how to weigh the positive effect that compulsory licensing will have upon market competition in the short run, versus the negative effect ex ante that compul-

167. Dolmans & Ilan, *supra* note 27, at 16.

168. *Id.* at 15–16 (citing the Opinion of Advocate General Jacobs in *Bronner*).

169. *Bronner*, 1998 E.C.R. at I-7831 to I-7832, [1999] 4 C.M.L.R. at 145; *see supra* notes 96–100 and accompanying text.

170. *See supra* note 147 and accompanying text.

171. *But see supra* note 98 and accompanying text (noting that although *Bronner* did not concern intellectual property, both the ECJ and Advocate General Jacobs expressly extended their opinions to encompass this subject).

sory licensing will have upon a firm that is deciding whether to invest in a particular market.¹⁷² This analysis *ex ante* is critical in cases involving intellectual property rights, which were conceived as a governmentally sanctioned limited monopoly for the very purpose of stimulating innovation.¹⁷³ Deprived of the ability to recoup their investment in developing intellectual property through exercise of their limited monopoly rights, firms would not have incentive to innovate.

As noted by one commentator, competition law evolved largely in the context of tangible goods, whereas developed economies increasingly rely upon the creation of “information goods” such as software.¹⁷⁴ Information goods, which often enjoy intellectual property protection, tend to give rise to monopolistic markets, because “[t]he sunk cost component seems effectively to play the dual role of consolidating on the one hand and of increasing demand and/or creating barriers to entry for potential competitors on the other hand.”¹⁷⁵ As a result, with respect to information goods, “one finds indeed a pattern of progressive concentration, both at [a] national and international level” with information goods “increasingly created and exploited by ever larger groups on a market with a shrinking number of significant competitors.”¹⁷⁶ The availability of copyright protection for databases such as the 1860 brick structure both encourages the creation of such information goods and results in a monopolistic market, and a thorough re-examination of the optimal means of structuring copyright law will prove more effective than competition law in dealing with this situation.¹⁷⁷ One

172. Professor Bergman explains the short- and long-run effects of the essential facilities doctrine as follows:

[T]he effect of the doctrine is similar to the effect of a price regulation of that stage of production — i.e., prices will be reduced, which is likely to bring price reduction in the related market as well. There is a short-run positive effect on competition, from which consumers will benefit. However, the price reduction will decrease the profit of the monopolist which, in turn, is likely to reduce the monopolist’s incentives to invest. Therefore, long-run negative effects from reduced incentives to invest are likely.

Bergman, *supra* note 64, at 422.

173. See Gitter, *supra* note 59, at 222 & n.15 (describing intellectual property rights as “limited monopoly” rights).

174. See Alessandra Narciso, *IMS Health or the Question Whether Intellectual Property Still Deserves a Specific Approach in a Free Market Economy*, 4 INTELL. PROP. Q. 445, 450-51 (2003).

175. *Id.* at 450.

176. *Id.* at 451.

177. See *id.* at 468 (contending that, rather than compulsory licensing becoming the norm, “[t]he conditions on which and the level at which copyright offers protection for information market goods should . . . be revised to get the balance right”).

possible solution is a shorter copyright term for information goods, so that competitors may enter the market sooner.¹⁷⁸

Professor Patterson expresses a different view, contending that when a company such as IMS creates a *de facto* standard, that firm merits the revenues attributable to its invention, but not the revenues deriving merely from the benefits of standardization.¹⁷⁹ In his opinion, the 1860 brick structure is valuable not because of any inherent value in that organizational method, but simply because pharmaceutical firms have invested money and time in order to adapt to it.¹⁸⁰ As a related point, Professor Patterson suggests that IMS's risk in developing the 1860 brick structure was limited, since pharmaceutical firms collaborated in the database development.¹⁸¹ These arguments fail for two reasons, however. First, as noted previously, pharmaceutical firms would not have invested in developing the 1860 brick structure on their own.¹⁸² Moreover, because developed economies rely increasingly upon information rather than manufactured goods,¹⁸³ the value of intellectual property, especially works protected by copyright, often derives from its interoperability as opposed to its creativity. EC law nonetheless furnishes copyright protection for works such as the 1860 brick structure, so as to encourage trade in information.

B. The ECJ's Judgment in the IMS Action Subjects Firms to Too Broad a Duty to License by Negating the Traditional Requirement in Compulsory Licensing Cases of Two Distinct Markets

In the IMS action, the ECJ interpreted existing case law to mean that compulsory licensing of intellectual property may be required even in cases where there are not two entirely separate markets, one upstream and one downstream, so long as "a potential market or even hypothetical market

178. See, e.g., LAWRENCE LESSIG, *THE FUTURE OF IDEAS: THE FATE OF THE COMMONS IN A CONNECTED WORLD* 250–53 (2001) (advocating for a shorter term of copyright protection for digital works and software).

179. Patterson, *supra* note 8, at 1076 (stating that IMS "is not entitled to all the revenues from the standardization" and that the Commission "seems to have been correct, then, in imposing a licensing obligation on IMS Health").

180. *Id.* at 1077 (claiming that demand for the 1860 brick structure "does not arise from any inherent advantages in the intellectual property owner's product, but from the contributions of its users"). Similarly, scholars suspect that the ECJ's enforcement of the Commission's compulsory licensing order in *Magill* was based in large part on the notion that the broadcasters did not merit copyright protection due to the lack of creative effort involved in compiling television listings. See Gitter, *supra* note 59, at 253–54 & nn.168–71 and accompanying text.

181. Patterson, *supra* note 8, at 1077–78.

182. See *supra* notes 161–164 and accompanying text.

183. See *supra* notes 174–176 and accompanying text.

can be identified” for the upstream input.¹⁸⁴ This imposes too broad a duty to license upon firms holding intellectual property rights, thereby threatening to stifle innovation.¹⁸⁵

While the ECJ cited *Magill* and *Bronner* in support of the proposition that even a potential or hypothetical market will satisfy the two-market condition, reliance on these cases is misplaced. With respect to *Magill*, a case that actually concerns intellectual property and therefore is more closely analogous, commentators have indeed recognized two distinct markets, one for television listings and the other for television guides.¹⁸⁶ While the ECJ did not find two entirely separate markets in *Bronner*,¹⁸⁷ it is clear that the markets for newspaper delivery and newspaper publishing do function independently. In contrast, intellectual property typically cannot be marketed separately from the goods or services created through its use.¹⁸⁸ Indeed, the 1860 brick structure that organizes the gathering and presentation of pharmaceutical sales data cannot possibly be marketed separately from the regional sales data services sold by IMS and its competitors.¹⁸⁹ In the final analysis, IMS’s competitors seek access to the brick structure in order to compete in the very same market in which IMS operates.¹⁹⁰

In articulating its interpretation of the two-market hypothesis, the ECJ cited Advocate General Tizzano’s opinion in the IMS action,¹⁹¹ which in-

184. ECJ Judgment of 29 April 2004, *supra* note 1, para. 44; see *supra* note 137 and accompanying text.

185. See *supra* notes 172–173 and accompanying text (describing the importance of intellectual property rights for stimulating innovation).

186. See *supra* note 132.

187. See *supra* note 138.

188. See Jean-François Bellis, *Article 82 and Refusals to License: The Advocate General Proposes a New Test in the IMS Health Case*, 33 EUR. LAW. 58, 59 (2003) (stating that nearly all competition cases relating to intellectual property “will involve some activity that involves the *mise en oeuvre* of the IPRs in the form of goods or services which are necessarily sold on a market that is vertically adjacent”). The *Magill* case was unusual in that the broadcasters had an incentive to produce and disseminate television listings even if they did not enjoy protection from competition in the market for television guides. See Derek Ridyard, *Essential Facilities and the Obligation to Supply Competitors Under UK and EC Competition Law*, 17 EUR. COMPETITION L. REV. 438, 446 (1996).

189. See Landolt & Ysewyn, *supra* note 12, at 43 (“In IMS Health the [intellectual property right] cannot support itself upon a related market.”).

190. See Dolmans & Ilan, *supra* note 27, at 14 (comparing the “actual” and “distinct” upstream and downstream markets of *Bronner* and *Magill* to the “potential demand” and “single market or production process” found in the IMS action).

By contrast, in IMS, the 1860 brick structure was developed by IMS only for use in a single data service. It was not marketed separately and it is not commercially rational for IMS to make it available to third parties. IMS’s competitors do not claim it for any other purpose, and indeed it could not be used for any other purpose.

Id.

191. ECJ Judgment of 29 April 2004, *supra* note 1, para. 44.

troduces as a hypothetical “classic example of the essential facility doctrine” the situation where “access to a port is indispensable in order to be able to provide maritime transport services in a given geographical market.”¹⁹² This analogy is inapposite, however, because

[u]nlike real property, [intellectual property] rights are only available if certain hurdles are overcome, normally including both creation and publication, and they are only available for a limited period of time. To apply anti-monopoly rules by requiring reasonable access during this monopoly period would in such cases annul the grant of the monopoly right. This in turn would remove a policy tool which encourages production of intellectual property. If this encouragement is not replaced in some other way . . . , this will result in a decrease in the rate of production.¹⁹³

Furthermore,

[u]nlike physical property, intellectual property cannot be used without disclosure or the significant possibility of disclosure. Once disclosed it is easily misappropriated, and thus its value is easily destroyed. The owner of a football stadium can lock the gates to keep out those who will not pay for access, but the protections for . . . intellectual property are far less effective and rarely self-enforcing. Thus, to preserve the incentives for creation of new knowledge, the legal system gives to the creator or inventor the ability to preserve the exclusivity of that knowledge, or the exclusivity of its use.¹⁹⁴

Another danger of the ECJ’s judgment in the IMS action is that it contains no language limiting it to certain forms of copyright and could therefore be extended to include process patents.¹⁹⁵ Dolmans and Ilan offer the prototypical example of a process patent for an improved method of synthesizing a chemical compound, and explain that “if the patented process confers a big enough competitive advantage, it would be ‘indispensable,’ since if competitors cannot use it they would be eliminated from the market.”¹⁹⁶ Under the Advocate General’s test, any demand by competitors for

192. *Opinion of Advocate General Tizzano*, *supra* note 25, para. 58. This example is drawn from an actual case in which the Commission first referred explicitly to the essential facilities doctrine. See Case IV/34.174, *B&I Line PLC v. Sealink Harbours Ltd. & Sealink Stena Ltd.* (Commission Decision of 11 June 1992), [1992] 5 C.M.L.R. 255 (1992). In this action, a harbor owner that operated on the downstream market for car ferry services offered inferior harbor access to a competitor in the market for car ferry services. *Id.* The Commission invoked Article 82 (then Article 86) in its interim decision requiring the harbor owner to grant access to its competitor. *Id.* at 265–66.

193. Stothers, *supra* note 154, at 91.

194. Lipsky & Sidak, *supra* note 128, at 1218–19.

195. See Dolmans & Ilan, *supra* note 27, at 14.

196. *Id.*; see also Bellis, *supra* note 188, at 59 (“A complainant can always argue that IPRs are unique and that any attempt to ‘invent around’ them would be unreasonably difficult.”).

the indispensable facility would constitute a second market,¹⁹⁷ triggering a duty to license intellectual property.

C. The ECJ's Judgment in the IMS Action Fails to Clarify What Sort of Product Satisfies the "New Product" Criterion Set Forth in *Magill*

The ECJ's judgment in the IMS action fails to clarify what sort of product will satisfy the criterion set forth in *Magill* that compulsory licensing is not appropriate unless a refusal to license prevents the appearance of a new product for which there is potential consumer demand.¹⁹⁸ In *Magill*, there was no question that *Magill* planned to offer a new product, as the company had created a comprehensive television guide that did not exist previously and would be cheaper for consumers than purchasing three separate guides.¹⁹⁹ In the IMS action, the ECJ, operating pursuant to the EC law that reserves factual questions to the national courts,²⁰⁰ referred to the German national courts the question whether NDC will offer "at most, new variations of the same services and on the same market" as IMS,²⁰¹ or a genuinely different, better product, as NDC contends.²⁰² While it is appropriate for the ECJ to defer to the German national courts on this factual question, the ECJ neglected to offer the national courts guidance on several important issues. The ECJ failed to state whether the new product could exist on the same market as the existing product, and, if so, what characteristics would make the product new.²⁰³ In addition, the ECJ did not specify how the national court should assess potential consumer demand (e.g. how many dissatisfied customers would have to be identified).²⁰⁴ Firms deciding whether to invest in intellectual property therefore will not be able to rely on the ECJ judgment for guidance on this issue.

197. See *supra* note 141 and accompanying text (setting forth Advocate General Tizzano's test for identifying separate markets in an Article 82 action).

198. See *supra* notes 120 and 146 and accompanying text (discussing new product criterion in *Magill* and its application by ECJ in the IMS action).

199. *Magill*, 1995 E.C.R. I-743, I-824, [1995] 4 C.M.L.R. 718, 791 (1995).

200. See *supra* note 7 and accompanying text.

201. *CFI Order of 26 October 2001*, *supra* note 22, para. 101.

202. See *supra* note 148 and accompanying text.

203. Estelle Derclaye, *The IMS Health Decision: A Triple Victory*, 27 *WORLD COMPETITION* 397, 404 (2004). Ms. Derclaye has pointed out that the ECJ judgment "could also be criticized for not specifying a period of time (e.g., a few years) after which the license can be imposed" and has suggested that "[t]he Court ought perhaps to consider this in future decisions." Estelle Derclaye, *The IMS Health Decision and the Reconciliation of Copyright and Competition Law*, 29 *EUR. L. REV.* 687, 696 (2004).

204. Cf. Bruno LeBrun, *IMS v. NDC: Advocate General Tizzano's Opinion*, 26 *EUR. INTELL. PROP. REV.* 84, 86 (noting that Advocate General Tizzano's decision had failed to answer these questions and expressing hope that the ECJ would do so).

D. The ECJ Neglected to Elucidate the Requirement in *Magill* That a Refusal to License an Indispensable Facility Must Lack Any Objective Business Justification in Order to Be Abusive

As noted above, EC case law generally provides little guidance regarding the requirement set forth in *Magill* that the intellectual property holder's refusal to license must prove unjustified in order to constitute an abuse of a dominant position.²⁰⁵ Nor did the ECJ seize the opportunity to clarify this issue in its *IMS* judgment.²⁰⁶ Commentators have noted that it is particularly important for intellectual property holders to know whether it is justifiable to refuse to license where the owner of the intellectual property itself wishes to develop and market the new product for which the license is sought, for "[i]f not, competitors would effectively have a right of pre-emption on new inventions over the IP holder."²⁰⁷ Once again, such a legal scheme would discourage innovation and encourage free-riding.

V. THE IMPLICATIONS FOR MICROSOFT CORPORATION OF THE ECJ'S JUDGMENT IN THE *IMS* ACTION

Commentators have noted that the ECJ's judgment in the *IMS* action will affect in particular information goods industries such as the software and information technology industries. Pending before the EC at present is one such competition action relating to the refusal of Microsoft to license to its rivals certain computer information in which Microsoft claims intellectual property rights.²⁰⁸

A. The Commission's Compulsory Licensing Order in the Microsoft Action

On March 24, 2004, after investigating for over five years, the European Commission concluded that Microsoft had violated Article 82 of the EC Treaty by refusing to license to rivals information that would permit them to create software that is compatible with Microsoft's dominant operating system for personal computers (PC operating system).²⁰⁹ The Com-

205. See *supra* notes 152–155 and accompanying text.

206. See *supra* note 156 and accompanying text.

207. Dolmans and Ilan, *supra* note 27, at 15.

208. Commission of the European Communities, Commission Decision of 24 March 2004 (Case COMP/C-3/37.792 Microsoft), available at <http://europa.eu.int/comm/competition/antitrust/cases/decisions/37792/en.pdf> [hereinafter Commission Decision in Microsoft].

209. See generally *id.* This article will not address a second part of the Commission decision, the finding that Microsoft had violated Article 82 by bundling its Media Player program with the rest of Windows, because this aspect of the action is an alleged tying violation, *id.* at 209–302, rather than a refusal to deal and therefore is not affected by the ECJ's judgment in the *IMS* action.

mission's investigation into Microsoft began in 1998 when Sun Microsystems Inc. (Sun) lodged a complaint with the Commission against Microsoft,²¹⁰ which holds a ninety-five percent share of the worldwide market for PC operating systems with its Windows products.²¹¹ According to Sun, Microsoft infringed Article 82 by refusing to license certain information²¹² that Microsoft contends is protected by intellectual property law.²¹³ According to Sun, this information is necessary in order for Sun to achieve full interoperability between its software products for network computing, called work group server operating systems,²¹⁴ and Microsoft Windows.²¹⁵ Sun contends that without access to this information that will allow it to achieve interoperability, Sun and other rivals will not be able to compete with Microsoft in the market for work group server operating systems.²¹⁶

The Commission decided in favor of Sun, ordering Microsoft, *inter alia*, to disclose to competitors, within one hundred twenty days, the information required by them in order to enable their products to communicate with the Windows operating system.²¹⁷ Microsoft must also update this information as it brings to market new versions of its products.²¹⁸ In addition, the Commission imposed on Microsoft a fine of 497.2 million euros, roughly US\$489 million²¹⁹ for abusing its market power in the EU.²²⁰

210. *Id.* at 5.

211. *Id.* at 119 & n.555.

212. This information is not the Windows source code, which is not actually necessary to create interoperable products, but rather the "hooks" at the edge of the source code that allow communication between products. See News Release No. 45/04, European Commission, European Commission Concludes Microsoft Investigation, Imposes Conduct Remedies and a Fine (March 24, 2004), available at [http://www.eurunion.org/news/press/2004/20040045.htm#\(3\)](http://www.eurunion.org/news/press/2004/20040045.htm#(3)) [hereinafter European Commission Concludes Microsoft Investigation].

213. Commission Decision in Microsoft, *supra* note 208, at 55.

214. The Commission has described work group server operating systems as "operating systems running on central network computers that provide services to office workers around the world in their day-to-day work, such as filesharing, security and user identity management." European Commission Concludes Microsoft Investigation, *supra* note 212.

215. Commission Decision in Microsoft, *supra* note 208, at 5.

216. *Id.*; see also European Commission Concludes Microsoft Investigation, *supra* note 212 (stating that Microsoft has acquired a dominant position in the market for work group server operating systems).

217. Commission Decision in Microsoft, *supra* note 208, at 299. Microsoft will be entitled to "reasonable remuneration for any of this interface information which may be protected by intellectual property rights." *Competition: Conduct Remedies and a Fine Imposed on Microsoft*, EU FOCUS, Issue 142, Apr. 8, 2004, at 7, 7.

218. Commission Decision in Microsoft, *supra* note 208, at 300.

219. See *xe.com* The Interactive Currency Table™, at <http://www.xe.net/ict/> (last visited Nov. 17, 2004).

220. Commission Decision in Microsoft, *supra* note 208, at 299. This fine relates both to Microsoft's refusal to deal as well as its tying violation. *Id.* While it is the largest fine that the Commission

In June 2004 Microsoft appealed the Commission's decision to the European Court of First Instance.²²¹ Commentators also expect the company soon to file another appeal requesting the court to suspend the Commission's sanctions until the conclusion of the appeals procedure, which could take several years.²²² The IMS action provides an example of such a measure, in that the CFI suspended the Commission's interim order imposing compulsory licensing until the resolution of the antitrust action before the EC courts, and the ECJ upheld the CFI judgment.²²³ Given the parallels between the IMS and Microsoft actions, the ECJ's judgment in the IMS case is likely to influence the outcome of the Microsoft action pending before the CFI.

B. The Ramifications of ECJ's Judgment in the IMS Action for the Microsoft Case

There are several parallels between the IMS and Microsoft actions. First, in both cases, rivals allege that a dominant firm's refusal to license information protected by intellectual property law impedes competition in a related market in violation of Article 82. In response, each dominant firm maintains that intellectual property protection is essential for stimulating innovation.²²⁴ Second, in both cases the dominant firm's competitors allege that the intellectual property at issue is indispensable because customers face insuperable obstacles to switching to an alternative. In the IMS case, customers have become reliant upon the 1860 brick structure because

has ever imposed on a single company for violations of EC competition law, *see* Treacy & Heide, *supra* note 59, the Commission could have established an even larger fine. EC competition law permits the Commission to impose fines of up to ten percent of a firm's worldwide turnover for the preceding business year, *see* Commission Decision in Microsoft, *supra* note 208, at 292, but the Commission calculated the fine based on Microsoft's European turnover only. Treacy & Heide, *supra* note 59.

221. Simon Taylor, *Microsoft Appeals Against EC's Market Abuse Ruling*, GUARDIAN (London), June 9, 2004, at 18; European Information Service, *Computer Software/Competition: Microsoft Launches Appeal Against Commission Ruling in EU Courts*, EUR. REP., June 9, 2004, LEXIS, News Library, Most Recent 90 Days File [hereinafter *Microsoft Launches Appeal*].

222. Taylor, *supra* note 221.

223. *See supra* notes 73–81 and accompanying text.

224. *See Opinion of Advocate General Tizzano*, *supra* note 25, para. 34 (paraphrasing IMS's argument that lack of respect for intellectual property rights would have "very serious and undesirable consequences for the market economy inasmuch as it would deprive the owners of an intellectual property right of the due recompense for their creative endeavour and would act as a disincentive to investments in innovation and research"); Commission Decision in Microsoft, *supra* note 208, at 190–91 (quoting Microsoft's argument that "[intellectual property] rights are meant to protect the outcome of billions of dollars of R&D investments in software features, functions and technologies. This is the essence of intellectual property right protection. Disclosure would negate that protection and eliminate future incentives to invest in the creation of more intellectual property.").

of the high switching costs.²²⁵ In the Microsoft action, the Windows technology exhibits network effects, meaning that the product is extremely valuable to consumers because so many other people use the same system.²²⁶ Finally, the Commission ordered compulsory licensing of the intellectual property at issue in each action.²²⁷

The ECJ's reliance upon *Magill* in its judgment in the IMS action demonstrates that the EC courts will apply the *Magill* criteria in competition cases involving intellectual property.²²⁸ Predictably, Microsoft and the Commission each claim that the ECJ's interpretation in the IMS action of the *Magill* criteria supports its arguments.²²⁹

The first *Magill* criterion requires that the dominant firm's refusal to license impede the appearance of a new product desired by consumers before a violation of Article 82 will lie.²³⁰ Microsoft contends that its rivals in the server market do not offer new products or services in the market for work group server operating systems.²³¹ The Commission, however, argues that Microsoft's competitors offer products that are new in terms of improved reliability, security, and productivity.²³² This case therefore bears a striking similarity to the IMS action, in that the dominant firm's competitors plan to offer essentially the same product, but assert that they will introduce additional features.²³³

The question whether a dominant firm's competitors offer a new product that satisfies the *Magill* criterion presents a fact-specific inquiry, and in the IMS action the ECJ referred this issue to the German national court.²³⁴ In the Microsoft case, the EC courts likely will address this issue directly, as the action did not arise as a request for a preliminary ruling

225. See *supra* notes 31–34 and accompanying text.

226. See Gitter, *supra* note 59, at 293 n.390 (describing network effects) (citation omitted); see also *The New Economy Survey*, *ECONOMIST*, Sept. 23, 2000, at 5, 30 (“If everybody you know uses Microsoft Word, then you will find life easier if you use it too.”).

227. See *supra* notes 70–71 (describing the Commission's compulsory licensing order in the IMS action), 217–18 (explaining the Commission's compulsory licensing order in the Microsoft action).

228. See *supra* notes 119–125 and accompanying text (describing the *Magill* criteria and noting that the ECJ applied them in the IMS action).

229. Paul Meller, *Court Ruling in Europe Could Affect Microsoft*, *N.Y. TIMES*, Apr. 30, 2004, at W7.

230. See *supra* note 120 and accompanying text.

231. Daniel Dombey, *Microsoft Says Ruling Will Help Its Fight With Brussels*, *FIN. TIMES* (London), Apr. 30, 2004, at 29.

232. See Commission Decision in Microsoft, *supra* note 208, at 186–88 & nn.840 & 841 (describing the enhanced features of the work group server operating system products offered by Microsoft's competitors).

233. See *supra* notes 148–149 and accompanying text.

234. *ECJ Judgment of 29 April 2004*, *supra* note 1, paras. 49–50.

from a national court. It is difficult to determine how the EC courts would decide this question, however, in light of the fact that the ECJ failed to clarify in the IMS action precisely what factors will make a product new.²³⁵

The second *Magill* criterion requires that the dominant firm's refusal to license lack any objective business justification before it will be found to violate Article 82.²³⁶ The Commission rejected the primary justification proffered by the firm: that Microsoft holds intellectual property rights in its Windows products and will lack incentives to innovate if required to cede these rights.²³⁷ According to the Commission, "on balance, the possible negative impact of an order to supply on Microsoft's incentives to innovate is outweighed by its positive impact on the level of innovation of the whole industry (including Microsoft)" and "the need to protect Microsoft's incentives to innovate cannot constitute an objective justification that would offset the exceptional circumstances identified."²³⁸

The Commission suggests that Microsoft's refusal to license the information that would allow its competitors to achieve interoperability of their software stems from its desire to monopolize the market for work group server operating systems.²³⁹ If the CFI agrees with this assessment, then it will likely hold that Microsoft violated Article 82, as EC competition law precludes a firm from using its dominant position in one market in order to eliminate competition in a related but separate market.²⁴⁰

Finally, the third *Magill* criterion provides that a dominant firm violates Article 82 only if its refusal to supply will effectively exclude all competition in a secondary, downstream market.²⁴¹ Microsoft contends that in fact its interoperability information is not indispensable for downstream competitors, who have managed to launch successful products such as the freely distributed Linux work group server operating system.²⁴² The Commission rejected this argument, emphasizing the risk that Microsoft's

235. See *supra* note 203 and accompanying text.

236. See *supra* note 121 and accompanying text.

237. Commission Decision in Microsoft, *supra* note 208, at 207–08.

238. *Id.* at 208.

239. *Id.* at 158–59 (stating that Microsoft made its interoperability information available in order to gain a foothold in the market for work group server operating systems, and then withheld such information once its work group server operating systems gained acceptance).

240. See Maurits Dolmans, *Standards for Standards*, 26 FORDHAM INT'L L.J. 163, 169 (2002) (stating that, pursuant to Article 82, "dominant technology suppliers must not exercise their rights in a discriminatory fashion or with a view to creating or maintaining barriers to entry in a downstream market (the market for compliant products)").

241. See *supra* note 122 and accompanying text.

242. Commission Decision in Microsoft, *supra* note 208, at 161 (noting that Microsoft "mentions the 'extraordinarily rapid growth' of Linux in the server realm as indicative of the fact that it is facing significant competition").

practices would eliminate all competition from the market.²⁴³ Once again, this question presents a fact-specific inquiry for the CFI, which must assess the strength of Microsoft's competitors in the market.

Notwithstanding the parallels between the Microsoft and IMS actions, there are some significant differences between them as well. First, Microsoft had previously disclosed some of the information sought by its rivals and then ceased to do so.²⁴⁴ As the Commission noted in its decision, while such a fact pattern is not necessary in order for a court to find an abuse of a dominant position, past EC essential facilities cases have attached special importance to a dominant firm's refusal to supply where it has disrupted previous levels of supply.²⁴⁵ This might lead the EC courts to uphold the Commission decision imposing a compulsory licensing obligation upon Microsoft.

In addition, the existence of two entirely separate markets is clearer in the Microsoft action than in the IMS case. The interoperability information in which Microsoft claims intellectual property protection is an integral part of its PC operating system, which exists on an entirely distinct market from work group server operating systems. In the IMS example, however, the 1860 brick structure cannot be marketed separately from the pharmaceutical sales data that it organizes. In light of the fact that the ECJ expressed approval of compulsory licensing of intellectual property in certain exceptional circumstances, that court may deem compulsory licensing appropriate in the Microsoft case.

On the other hand, the EC courts might decline to uphold the Commission's order in the Microsoft action in light of a provision in the 1991 EC Software Directive, which has been implemented in the laws of all the EC Member States.²⁴⁶ The Directive permits lawful users, including competing software manufacturers, to reverse engineer a computer program to obtain the interoperability information necessary to create a competing program.²⁴⁷ The Commission declared that reverse engineering was not a viable solution for Microsoft's competitors, because the process would be too time-consuming in such a fast-moving industry (and possibly unsuccessful due to the complexity of the information).²⁴⁸ In addition, the Commission pointed out that Microsoft ultimately could upgrade its operating

243. *Id.* at 161–71.

244. *Id.* at 157.

245. *Id.* at 149–50, 157.

246. Council Directive 91/250/EEC of 14 May 1991 on the Legal Protection of Computer Programs, 1991 O.J. (L 122) 42.

247. Council Directive 91/250/EEC, art. 6.1(b).

248. Commission Decision in Microsoft, *supra* note 208, at 183–84.

system so as to destroy the compatibility achieved by its rivals through their reverse engineering efforts.²⁴⁹ If the EC courts do not accept the Commission's reasoning, however, they might conclude that compulsory licensing is inappropriate in light of the ability of Microsoft's competitors to deduce the interoperability information they seek through reverse engineering.

VI. CONCLUSION

The ECJ's recent judgment in the IMS competition action, in which the court strives to balance the need to protect national intellectual property rights with the imperatives of EC competition law, is vulnerable to critique on several grounds, both because it subjects dominant firms to much broader duties to license than had prior ECJ judgments and because it neglects to clarify some of the legal issues raised by the parties. First, the ECJ placed too much emphasis, in determining whether intellectual property is indispensable, upon the relevancy of customers' participation in creating intellectual property and their potential costs in switching to an alternative. Second, while previous EC cases finding a dominant firm's refusal to supply to be abusive had required the existence of two different markets, meaning that the dominant firm's refusal to license an essential facility had to impede competition in a distinct downstream market, the ECJ accepted in the IMS action a potential or hypothetical market to satisfy the two-market criterion. Third, the ECJ failed to clarify what sort of product will satisfy the condition set forth in *Magill* that a refusal to license cannot be abusive unless it impedes the emergence of a new product. Finally, the ECJ neglected to elucidate the requirement in *Magill* that a refusal to license an indispensable facility must lack any objective business justification in order to be abusive.

What is clear after the ECJ judgment in the IMS action is that the court views compulsory licensing as an appropriate remedy for violation of Article 82 provided that certain conditions are met, even in cases involving new economy industries, which rely heavily upon intellectual property rights for stimulating research and development. The Microsoft action pending before the EC courts presents such a case. If the EC courts agree with the Commission that Microsoft's refusal to license its interoperability information impedes the appearance of a new product, lacks any objective business justification, and excludes all competition in a secondary, downstream market, the courts will uphold the Commission's compulsory licensing order in this proceeding.

249. *Id.* at 184–85.